

# REPORT ON OPERATIONS AND FINANCIAL STATEMENTS

AT 31 DECEMBER

# 2017

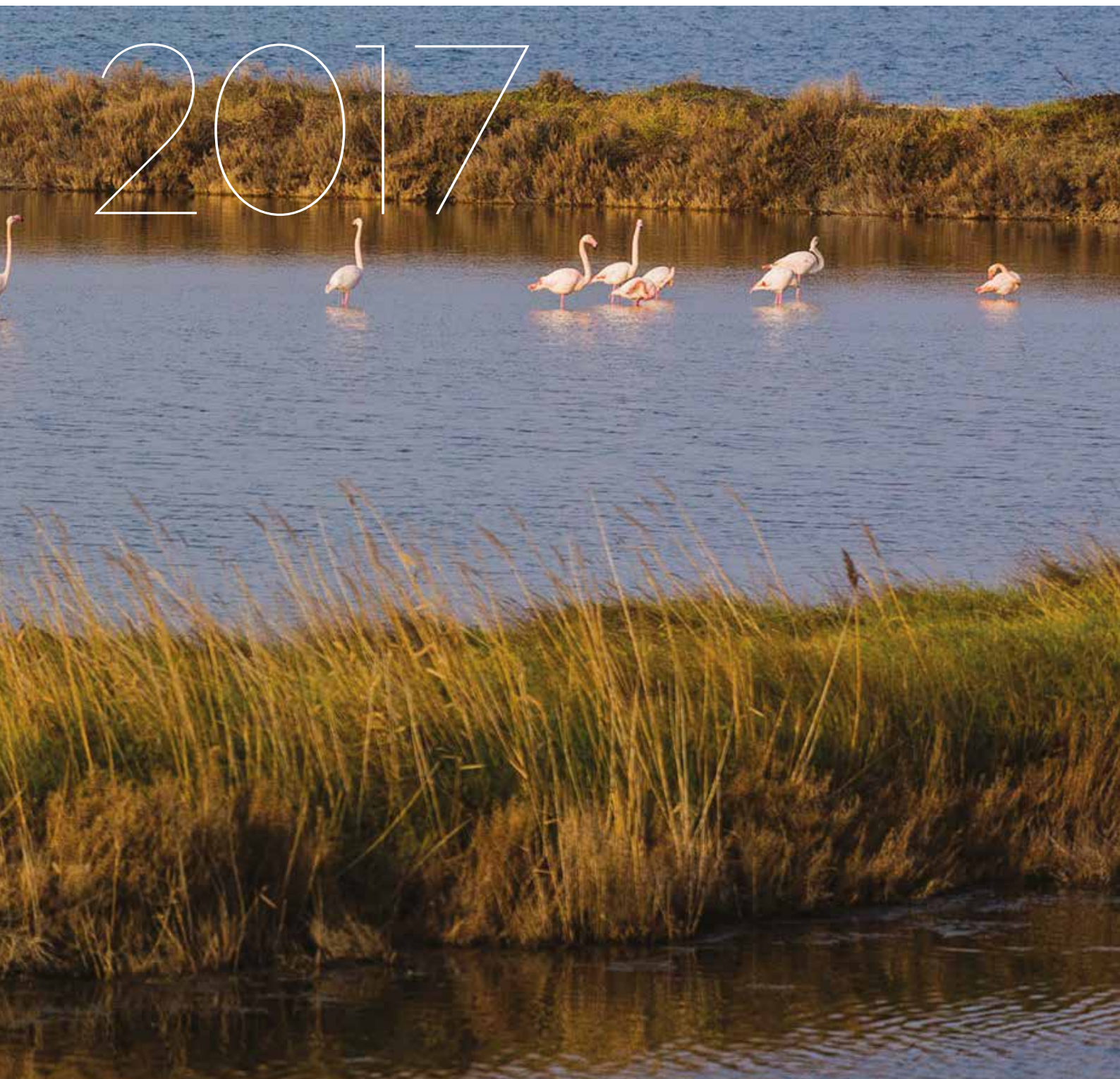


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Courtesy Translation

2017



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# OPERATING REPORT

This Operating Report is prepared in compliance with article 2428 of the Italian Civil Code.



# Past, present and future

During 1997 and 1998 Edison Gas commenced a feasibility study for the construction of an LNG terminal in the Northern Adriatic Sea. The positive outcome of these studies led the Company to begin the procedures to obtain the necessary authorizations.

On 15 December 2000, the company Edison LNG S.p.A. was incorporated and in Doha - Qatar, on 20 November 2003, the Participation Agreement was signed, whereby Qatar Petroleum and ExxonMobil expressed their intent to become Quotaholders.

On 2 May 2005, the various agreements were finalized and Qatar Terminal Limited and ExxonMobil Italiana Gas S.r.l. became Quotaholders of Edison LNG S.r.l. and the Company changed its name to Terminale GNL Adriatico S.r.l.

Terminale GNL Adriatico S.r.l. has designed, built and installed offshore of Porto Levante (in Rovigo province), about 15 kilometers off the coastline, a liquefied natural gas (LNG) regasification terminal with a nominal capacity of 8 billion cubic meters/year - 775 million cubic feet per day, that can cover about 10% of the national demand for natural gas - the first concrete Gravity Based Structure (GBS) in the world for LNG regasification. The regasification terminal project included construction of a 40 km gas pipeline, part underwater and part onshore, and the Cavarzere Metering Station.

The offshore regasification terminal is considered a state-of-the-art structure in terms of innovative design and technology and in 2010 won the "Platts Global Energy Award" in the category "Infrastructure Project of the Year". It represents a strategic addition to Italy's energy infrastructure, guaranteeing a safe and reliable source of energy, there-

by increasing and diversifying Italy's energy supply sources.

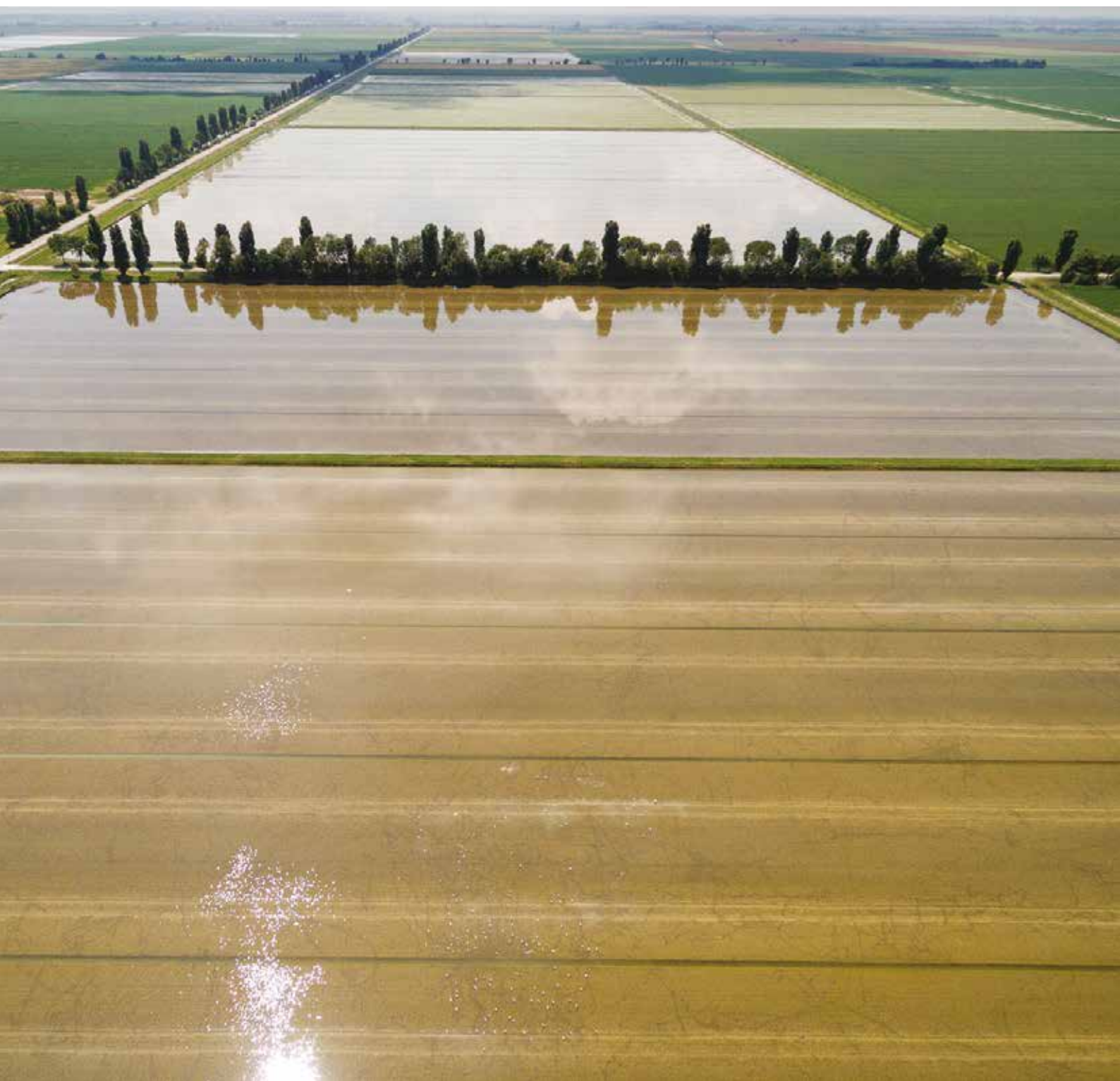
The high standards of management and control implemented by the Company ensure its operations (berthing of LNG tankers, LNG unloading, regasification measurement and the continuous gas supply into the national grid) are executed safely, reliably and with care for the environment.

The Adriatic LNG regasification terminal commenced commercial operations in the second semester of 2009. By the end of 2017, 567 LNG cargos had been discharged and terminal capacity utilization in 2017 was about 82%, significantly higher than the average utilization factor of LNG terminals in Europe.

On 13 October 2017, Edison S.p.A. and Snam S.p.A. announced the sale and purchase of the equity quota of Terminale GNL Adriatico S.r.l. Current Quotaholders therefore include Snam S.p.A. along with Qatar Terminal Limited and ExxonMobil Italiana Gas S.r.l.

Terminale GNL Adriatico S.r.l. is set up to operate until October 2052 under the fifty-year maritime concession issued by the Ministry of Infrastructures and Transport. To this end, the Company signed long-term commercial agreements with leading operators in the gas sector before the commencement of commercial operations, thereby allocating over 90% of the regasification capacity for the next 2 years, and approximately 80% of the capacity for the following 15 years.





# Company Management

Terminale GNL Adriatico S.r.l. (the Company) is managed pursuant to art. 2475 and following articles of the Italian Civil Code and Sections IV and V of the By-Laws, which govern the methods for appointment, duration of office, powers, meetings, and quorums for passing resolutions of the Board of Directors and the Statutory Auditors.

## Board of Directors

The members of the Board of Directors, appointed pursuant to Section IV article 20 of the By-Laws and following sections, which approve this Report on Operations and Financial Statements, are the following:

### Chairman

Homoud Fahad Homoud Sultan Al-Qahtani

### Managing Director

Suresh Jagadesan

### Directors

Ali Khalaf Al-Kaabi  
David William Moore  
Giovanni Murano  
Alistair G. Routledge  
Joseph Pergler

## Statutory Auditors

The Statutory acting Auditors, appointed pursuant to Section II article 6.2(b) of the By-Laws, are the following:

### Chairman

Maurizio de Magistris

### Acting Auditor

Lorenzo De Angelis

### Acting Auditor

Piero Gennari

## External Auditors

On 26 April 2017, the Quotaholders' Meeting appointed as external auditors PricewaterhouseCoopers S.p.A. for the 2017-2019 three-year term.





# Introduction

Dear Quotaholders,

The year 2017 was the eighth full year of commercial operations. The positive financial and operating results are combined with the quality of the infrastructure and the commitment of the organization to the highest standards of safety & health, environmental protection and business controls.

During the year, 77 LNG cargos were received, with unloaded volumes of 11.0 million cubic meters of LNG:

- 71 related to the Foundation Capacity agreement, with an exemption according to the procedures established by the Ministry of Economic Development and by the Regulatory Authority for Energy Infrastructures and Environment (ARERA), coming from Ras Laffan Liquefied

Natural Gas Company Limited II (RasGas II) in Qatar;

- 5 related to the Non-Foundation Capacity agreement coming from Qatar, Trinidad and Tobago, Nigeria, Egypt and USA;
- 1 related to the National Gas Emergency Plan Peak Shaving service coming from Qatar.

The Company delivered into the national distribution grid a total of 6.6 billion cubic meters of gas, representing 10.0% of the gas imports to the Italian market and 9.3% of the total gas supply.

## 2017 highlights

The Financial Statements at 31 December 2017 report net profit of 27,480,484.89 Euro. Key operating and financial data are reported in the following table:

		2017	2016	Abs. change	% change
<b>Safety, environmental and controls highlights</b>					
Total recordable incidents	[Number]	1	-	1	100%
Process Safety Incidents	[Number]	-	-	-	n.a.
Spills /Exceedences	[Number]	-	-	-	n.a.
CO <sub>2</sub> Emissions	[kTon]	89	82	7	9%
<b>Financial highlights</b>					
Net profit	[kEuro]	27.480	28.917	(1.437)	(5%)
Income before taxes	[kEuro]	38.677	42.155	(3.478)	(8%)
Gross revenues	[kEuro]	236.978	235.729	1.249	1%
Gross operating margin	[kEuro]	114.991	118.377	(3.386)	(3%)
Net assets addition	[kEuro]	2.472	2.461	4	0%
<b>Operations highlights</b>					
LNG Cargos unloaded	[Number]	77	64	13	20%
Volumes of gas redelivered	[M Standard cubic meters]	6.590	5.508	1.082	20%
Regassification reliability	[%]	99,9%	99,9%	0,0%	0,0%

## Our commitment to safety, environment and community

The Company continues to enhance the integrated Safety, Security, Health and Environmental Management System (SHEMS) which is key to ensure the integrity of the operations and compliance with applicable regulations and industry standards. A number of specific initiatives have been developed in order to reinforce commitment to operations excellence.

The Company's relentless pursuit of an incident-free workplace continued through 2017. Leadership and guidance is provided through the Company SHEMS Steering Committee, three site Safe Operating Committees (SOCs) at the terminal, shore base and Milan office and various Work-Site Safety Committee Meetings (WSSCs).

Following the approach that Adriatic LNG has always adopted, we continue to promote cooperation and dialogue with local communities, respect for the environment, and the development of sustainable resources.

Adriatic LNG is recognized as a reliable partner by local authorities, associations and NGO's and is ac-

tively involved in the economic and cultural life of the territory, supporting several initiatives and events in safety and health, social and educational areas, arts and music, amateur sports.

The Company is aimed to consolidate its positive reputation and strengthen its visibility at regional level.

The strong operational performance of 2017 reflects the investments made in the Company's facilities and organization, its values of safety, ethics, integrity and operational excellence. The Adriatic LNG terminal is recognized for the strategic role it plays in diversifying energy supply for Italy and Europe, in a safe and environmentally sensitive manner. The Company has established a sound foundation for reliable performance and is prepared to manage the challenges and opportunities deriving from the continuously evolving regulatory environment.



# THE ADRIATIC LNG REGASIFICATION TERMINAL: STATE-OF-THE-ART TECHNOLOGY AND REGASIFICATION PROCESS

The use of natural gas - which has long been recognized as the cleanest of the fossil fuels - began more than two thousand years ago when the Chinese people started boiling sea water in order to make it good for drinking. It was only from the 9th century that people started to be aware of the potential of gas as a source of light, heat and power generation.

LNG is liquefied gas composed primarily of methane. After extraction and elimination of impurities, the gas is cooled to  $-162^{\circ}\text{C}$ . At this temperature the gas becomes liquid (LNG), reducing its volume 600 times. While in a liquid state, it can be stored in tanks, placed in LNG carriers and transported over long distances to the consumer end markets, where it is regasified and distributed.

The Adriatic LNG terminal has a very efficient process in which the heat required for LNG regasification comes from seawater, at its natural temperature, and by capturing waste heat, from the on-board power generation gas turbine exhausts, through an energy recovery cycle.

The Adriatic LNG terminal is the first offshore concrete structure in the world designed for the reception, storage and regasification of liquefied natural gas (LNG). The structure is 375 meters long, 115 meters wide, the main deck is 18 meters above sea level, and the flare stack extends 87 meters above the water line.

The terminal is located offshore of Porto Levante, in the northern Adriatic Sea, resting on the sea floor at about 15 km offshore of the Veneto coastline, providing a platform for the regasification facilities, utility systems and living quarters.

A 30-inch diameter 40-km long pipeline transports the gas to the Cavarzere Metering Station, in the province of Venice. Here, another pipeline, belonging to Infrastrutture Trasporto Gas, carries the gas a further 84 km to the national distribution

grid entry point close to Minerbio, in the province of Bologna.

## The concrete structure

The main element of Adriatic LNG terminal is the large concrete structure (Gravity Based Structure or GBS) built with 90,000 cubic meters of concrete and 30,000 tons of steel frames, resting on the seabed at a depth of about 29 meters.

## LNG storage tanks

Inside the GBS there are two LNG storage tanks, each one with an operational capacity of 125,000 cubic meters, made of 9% nickel steel to withstand the extremely low temperatures needed for storage of LNG.

## The regasification plant

The regasification plant is located on top of the GBS, including four LNG Open Rack Vaporizers which use the heat naturally contained in the seawater, a Waste Heat Recovery LNG Vaporizer (WHRV), which uses heat from the gas turbine exhausts, two boil-off gas compressors, four pumps for withdrawing LNG from the storage tanks and five high-pressure booster pumps to send the gas to the vaporizers with enough pressure for the gas to flow through the pipelines, the metering systems and into the national grid.

Special unloading arms are installed on the GBS, designed to operate in a wide range of environmental conditions typical for an offshore terminal. The unloading arms transfer the LNG from the carriers to the storage tanks of the terminal.

The terminal also houses auxiliary equipment, such as the module for generation of electricity with



gas turbines and the electrical and instrumental substation.

### LNG tankers mooring structures

The terminal includes the LNG tanker mooring structures, the so-called “Mooring Dolphins”. Each mooring structure consists of a base (a concrete box of about 7 meters high) surmounted by two columns of reinforced concrete (about 28 meters high), connected between them by a steel bridge (about 63 meters long and 8.5 meters wide).

### Living quarters

The personnel that operate and maintain the terminal reside in living quarters designed to provide a safe and comfortable environment. The facility accommodates up to sixty people to support 24 hours a day, seven days a week operation. The module includes a modern control room, from which operators can monitor every aspect of the terminal, the pipeline and the gas metering station, with an advanced control system. Communication, radar and cameras also allow a constant connection with the shore base, marine authorities and ships.

### The shore base

The shore base plays a key role in supporting the offshore terminal and coordinates all the activities to support the transport of supplies and of the technical and operational personnel to and from the terminal. This is a building located along the Po di Levante, in the locality of Porto Viro, in the province of Rovigo.

The base is equipped with its own helideck and mooring dock for crew supply vessels and includes a warehouse for supplies and spare parts, offices and telecommunication systems in permanent connection with the terminal.



# 2 OPERATING ENVIRONMENT AND OUTLOOK

## 1.2.1 Market environment

### Access to the Regasification Service

The terminal operates within the framework defined by the Ministry of Economic Development and by the Regulatory Authority for Energy Infrastructures and Environment (ARERA).

The terminal has a total capacity of 8 billion cubic meters, eighty percent (80%) of which is reserved for the investors (Foundation Capacity) to regasify the LNG imported from Qatar under a twenty-five-year sale and purchase agreement between Ras Laffan Liquefied Natural Gas Company Ltd. and Edison S.p.A., while the remaining twenty percent (20%) of capacity (Non-Foundation Capacity) is regulated and available for third parties access.

Two thirds of the Non-Foundation Capacity was contracted for ten years at the end of the “Open Season” process held in 2009. This contract started from 1 January 2010 for a total amount of 1 billion cubic meters per year.

The remaining Non-Foundation Capacity is available for subscription through transparent processes to Third Party.

The Regasification Code regulates the access to the regasification services as well as the process of capacity determination and allocation. Users requesting terminal access have the obligation to meet and maintain the requirements listed in the Regasification Code. It was approved by ARERA with the resolution ARG/gas 57/11 pursuant to art. 24, paragraph 5, of Legislative Decree 164/2000 on 12 May 2011 as subsequently amended. The Regasification Code defines its amendment process, whose modifications are approved by ARERA upon the Company’s proposal and open market consultation process. The current version of the Code, updated with ARERA resolution 112/2018/R/GAS dated 01 March 2018, is published on the

Company’s website.

During 2017, Adriatic LNG regasification terminal utilization, based on send-out, was approximately 82% of its total capacity, higher than previous year and continued to be significantly higher than the average utilization of LNG terminals in Europe, estimated at about 22%, by Gas Infrastructures Europe (GLE). During this year the Foundation Capacity user released 3 capacity slots and the non-Foundation Capacity user released 7 capacity slots. Moreover the Peak Shaving service, one of the measures of the “Emergency Plan” set by the Ministry of Economic Development decree to ensure security of supply to the national gas system during the winter needed to cope with unforeseen peaking demand, fostered the allocation of one spot cargo in December.

### Marine services

Terminale GNL Adriatico S.r.l., for the safety of berthing at the offshore terminal and in accordance with the Ministry of Infrastructures and Transport note no. 6991 of 13 June 2006, provides, as a separate and optional service, maritime services (e.g. tugs, piloting and line handlers) for the benefit of users and/or the owners of LNG carriers.

In accordance with the ARERA resolution 625/2015/R/gas, tariff for these services are defined by the regasification Company and no longer subject to ARERA approval. In line with transparency obligations, maritime services tariffs are publicly available on the Company’s website.

All services were developed by the Contractors companies in compliance with the safety standards defined by the Port Authority of Chioggia.

## Market overview

Italy is the third largest European gas market. Currently about 34% of Italian energy use is covered by natural gas and the country is heavily dependent on imports (92% in 2017) from foreign sources for its energy supply while national production continues to decline, accounting now for less than 7% of total demand. The gas market is generally seasonal, with peak demand occurring towards the end of February/early March when gas storage fields are almost depleted.

As background, the Italian gas market is currently supplied by: (i) four pipelines from North West Europe (Transitgas), Russia (TAG), Libya (Greenstream) and Algeria (TTPC), (ii) three LNG terminals (including Adriatic LNG), (iii) national production. In 2017 Adriatic LNG terminal has contributed for about 10% of the total import. OLT Offshore LNG Toscana has offered peak shaving and a new bundled service, allocating 10 cargoes in total. GNL Italia, the other existing terminal, has instead resumed operation in the past two years after some years of inactivity, and has allocated 2 slots under the integrated service plus other cargoes under long-term contract from Algeria but didn't offer the peak shaving service because of limited storage capacity.

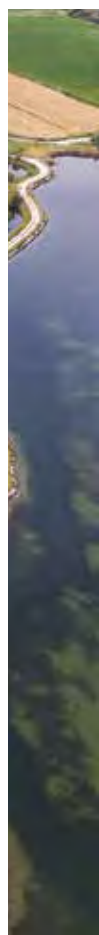
The total gas demand in Italy for 2017 was 74.7 bcm, 4.3 bcm (+6.1%) higher than previous year but still significantly lower (-11 bcm) than the peak reached in 2005. According to the new National Energy Strategy (SEN) the total demand should remain flat or slightly decreasing up to 2030.

Gas prices in 2017 have rebounded with respect to previous years reaching a +27.4% increase registered for spot prices at PSV mainly driven by a significant increase in the power generation demand and long term maintenance activity in the TENP (importing pipeline from North of Europe). The Ita-

lian gas market has increased in 2017 the gap with respect to the other European markets (the current spread is 1.8 €/MWh) but LNG is still mainly routed to other more attractive Regions rather than into Europe, despite the significant increase in LNG production with new exporting sources (e.g. USA, Australia, Papua New Guinea, etc.). New markets for LNG opened up mainly in North Africa and Middle East. In Italy, the Government is very active in putting in place new measures and initiatives to increase the competitiveness of LNG. In this regards the newly introduced bundled service of regasification capacity and underground storage, or the recent initiative to sell the regasification capacity through auction, are some examples.

Despite the increase in the gas demand, the Italian market remains oversupplied with the consequence that several infrastructures projects are actually on hold and only TAP and ITGI Poseidon pipelines, despite strong opposition by local communities, are progressing as per plan.

All other LNG terminals projects (e.g. Porto Empedocle, Gioia Tauro) and storage fields (Stogit and independent companies) are looking for new business opportunities (e.g. Small Scale LNG) or cost socialization to justify investment decision but no new final investment decisions have been taken so far. Italy continues with its aspiration to become the Mediterranean Hub, and a new export capacity through pipeline from Italy to the North of Europe (Transitgas) is expected to be implemented in 2019 for 40 million cubic meter a day. Some export capacity toward North Europe (approximately 18 million cubic meter a day) are now already available for export via TENP and Transitgas.





## Regulatory context (ARERA)

According to law 481 dated 14 November 1995, the ARERA defines the maximum tariff to be applied to all regulated services including the regasification service. It is a two-step process where first a framework is defined and then a tariff per unit (for regasification) or the whole market (for gas transportation or storage) is approved - or defined unilaterally - by ARERA.

With resolution 438/2013/R/Gas ARERA defined the framework of the regulated tariff for the regulatory period 1 January 2014 - 31 December 2017. On 8 May 2014 ARERA, with the resolution 209/2014/R/gas verified positively and subsequently approved the Company proposal for the amendment of the Regasification Code in order to implement resolution 438/2013/R/Gas on regasification tariff for the regulatory period 2014 - 2017. With resolution n. 653/2017/R/Gas ARERA defined the framework of the regulated tariff for the transitional regulatory period 1 January 2018 - 31 December 2019.

The ARERA, as part of its drive to unbundle the businesses in order to promote competition in the energy market, has separated gas measurement activities from those of regasification and transportation. With resolutions ARG/Gas 108/10 and 438/2013/R/Gas, the ARERA has defined a transitional regulated tariff for the measurement activity carried out by the regasification operators (CMr component).

With resolutions 392/2016/R/Gas e 777/2016/R/Gas, ARERA approved the regasification, gas measurement services tariffs and the quantity of LNG that is used as terminal Use & Loss Gas and that has to be provided in kind by terminal users for the calendar year 2017.

On 22 September 2016 the ARERA, with the resolution 520/2016/R/gas, approved the Company proposal for the amendment of the Regasification Code in order to implement resolution 118/2015/R/Gas on the flexible utilization of the regasification capacity, together with the update of the congestion management procedures to access the terminals. With resolution 671/2017/R/Gas ARERA ap-

proved the tariff for the flexibility services and the temporary storage starting from 1 October 2017.

On 7 April 2016, the Company started the REMIT reporting of operating fundamental data (i.e. daily send out and tank inventory, planned and unplanned outages) to the Agency for the Cooperation of Energy Regulators (ACER), as required by the Implementing Acts of European Union Regulation no. 1348/2014.

## Capacity allocation and use

On 28 September 2017, the ARERA, with the resolution 660/2017/R/Gas, adopted new rules on regasification capacity allocation whereby, among others, the short-term capacity allocation through competitive auctions.

Such resolution does not change the allocation mechanism of long-term (10 years) capacity in place for Adriatic LNG, in line with the provisions of resolution n. 186/06 dated 31 July 2006.

## Security of supply - Peak Shaving

The Ministry of Economic Development with decrees dated 13 September 2013 and 18 October 2013 has modified the National Gas Emergency Plan, which provides a set of actions to be carried out in case of major interruption of gas supply during a period of high demand, including the regasification terminals among the assets which can provide support. Such support request is decided year on year by the National Gas Emergency Committee (where the Company is represented) based on the expected market and supply conditions in the coming winter. ARERA is requested to define for each winter season the tariff for so-called Peak Shaving service, which envisages the possibility for a supplier to store its LNG in a regasification terminal for the January - March period and make it available to the Transmission System Operator, that can request its regasification with a short term notice to face gas supply shortage in case of emergency. Adriatic LNG launched its tender in November and successfully allocated one spot cargo delivered in December.

## Integrated Service

On 25 February 2016, 7 December 2016, 13 February 2017 and 29 May 2017, the Ministry of Economic Development (MISE) issued ministerial decrees (DM) introducing and developing a bundled storage and regasification capacity service (so-called Integrated Service) for the thermal year 2016-2017. The purpose of this new service was to enable industrial customers to import directly LNG and differentiate sources of supply.

This service was offered by all Italian regasification companies simultaneously through auctions based on the rules defined by the ARERA resolution n. 77/2016/R/Gas but the tender carried out by Adriatic LNG in 2016 was not successful. The Company elected not to participate to the 2017 Integrated Service tender because of unfavorable market conditions.

### 1.2.2 Authorization context

In 2016 the following activities and testing were completed with positive results for completion of the terminal authorization procedure:

- testing pursuant to art. 48 of the Regulation for the Execution of the Navigation Code by the Interministerial Commission appointed by the Ministry of Infrastructure and Transport;
- testing pursuant to former art. 11 of Presidential Decree 420/94 by the commission appointed by the Ministry of Economic Development.

With decree dated 28 July 2016, the Ministry of Economic Development issued the final certification of project completion of the terminal, pipeline and metering station.

### 1.2.3 Current year overview

The year 2017 was the eighth year of full commercial operations for the terminal, confirming our contributions to the Italian gas market, reliability of our regasification services with highest standards of

safety and health, environmental care and business controls.

Highlights include:

- the safe berthing and unloading of 77 tankers;
- zero controls irregularities;
- no spills;
- no security incidents or damage to the facilities;
- regasification operations reliability for the year achieved at 99.9%;
- redelivery of 6.6 billion cubic meters of gas into the national distribution grid, representing 10.0% of gas imports to the Italian market and 9.3% of the total gas supply;
- continued efficient operation of the terminal;
- positive financial results and cash surplus generated by operating activities allowed the Company to pay the amount of 28.9M Euro as dividends to the Quotaholders and to return a total of 71.0M Euro as partial refund of the Equity Reserve “Versamento Soci in Conto Capitale”.

Management has regular litigation reviews, including updates from Company Legal Counsel and outside counsels, to assess the need for accounting recognition or disclosure of these litigations and related contingencies. Italian Accounting standard (OIC 31) requires that liabilities for contingencies are recorded when it is probable that a liability has been incurred by the date of the balance sheet and that the amount can be reasonably estimated. Based on assessment by the Legal Department and from external attorneys, of which detailed information is provided in section “1.3.1.4 Risks involved in legal disputes”, no reserves have been recorded for Litigation Contingencies for legal disputes.

The following management discussion and analysis of Company financial results are meant to provide an overview and highlight the significant business events that occurred during the year. Company statements in this discussion are based on a forward-looking basis. Some of the major indicators of financial nature are included with the aim to enhance the description of 2017 performance.

The financial results are commented and explained in the summary tables included in following paragraphs and are further detailed in the “Notes to the Financial Statements”.



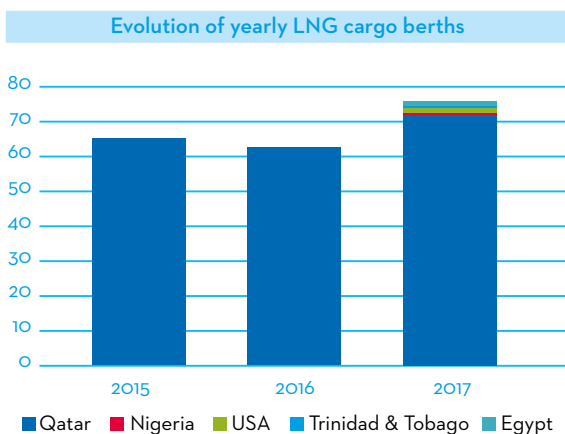


### 1.2.3.1 Investments

During the year, 21 minor project activities have been completed. Total investment amount was at 2,938k Euro, inclusive of minor projects still underway. During the year fixed asset disposals totaled 466k Euro in net book value.

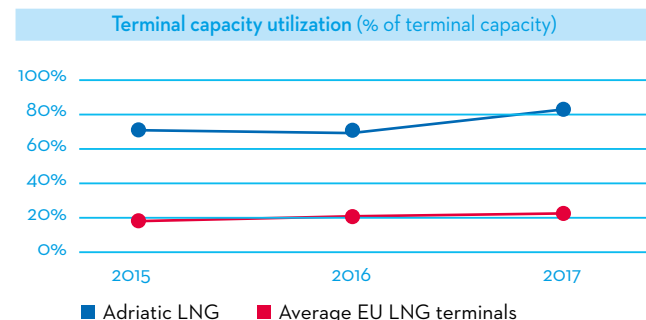
### 1.2.3.2 LNG and natural gas volumes

In 2017, 77 tankers berthed at the terminal. The increase of 13 berths with respect to 2016 is mainly driven by improved market conditions and subsequent lower cargo releases. The following chart shows the evolution of yearly cargo berths at the terminal according to source country.



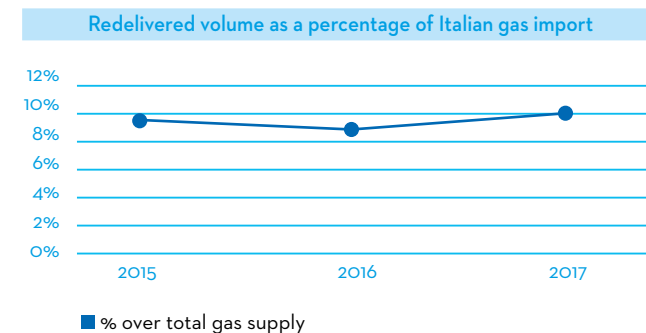
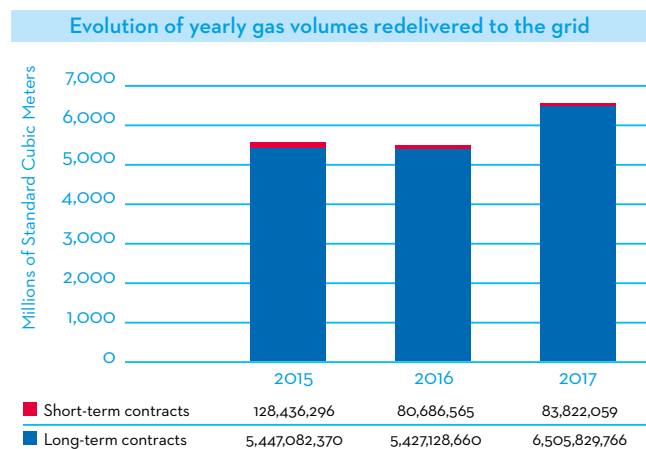
The increased of offloaded cargos directly impacted the terminal capacity utilization resulting at 82% from 69% recorded in 2016. The terminal capacity utilization remains significantly higher compared to the other European LNG terminals

(estimated at 22% based on latest available data), as shown by the following graph.



Source: GLE, EU Gas Coordination Group.p

During 2017, 6.6 billion cubic meters of gas were re-delivered into the national distribution grid at the Cavarzere metering station, an increase of about 20% with respect to 2016. Evolution of yearly gas volumes re-delivered by the Company and its contribution to the supply of gas to the domestic market are shown in the charts below.



Source: Ministry of Economic Development - Natural Gas Volumes

### 1.2.3.3 Summary financial information

#### Summary Income Statement

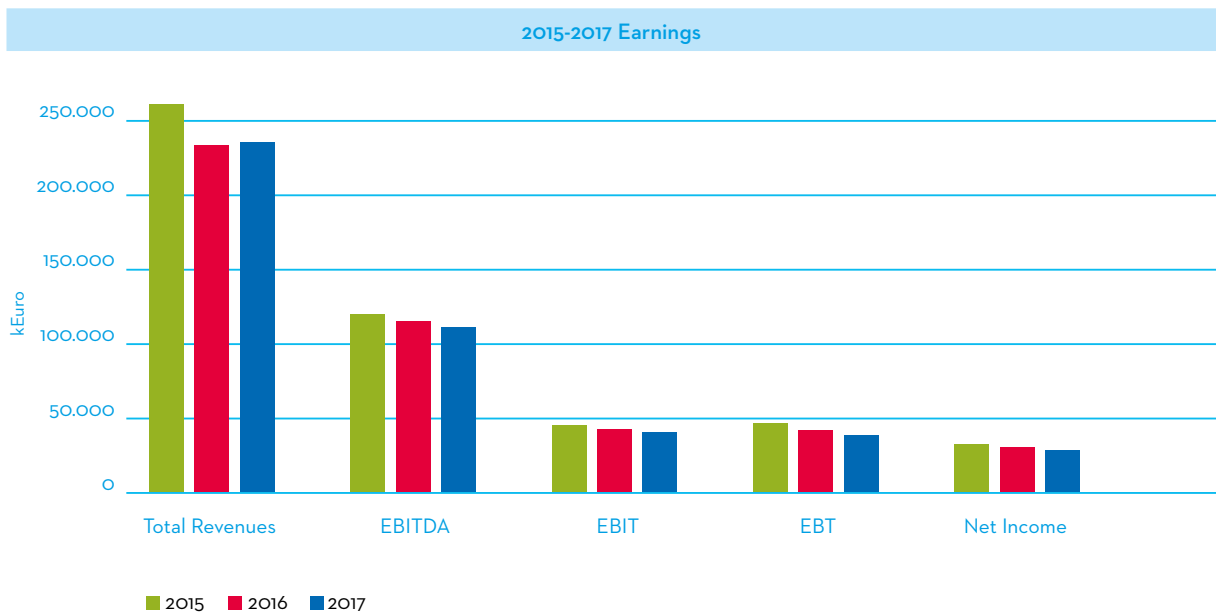
The Income Statement is reclassified following the value added approach.

RECLASSIFIED INCOME STATEMENT	2017	2016	Abs. change	% change
(thousands of euro)				
<b>A. SALES REVENUE</b>				
Revenue from sales and services	236,797	234,644	2,153	1%
Altri ricavi e proventi	181	1,085	(904)	(83%)
<b>NET REVENUE</b>	<b>236,978</b>	<b>235,729</b>	<b>1,249</b>	<b>1%</b>
Inventory change for raw materials, semi-finished and finished goods	-	-	-	-
Increase in capitalized expenses for internal works	-	-	-	-
<b>Total Revenues</b>	<b>236,978</b>	<b>235,729</b>	<b>1,249</b>	<b>1%</b>
<b>B. COST OF GOODS SOLD</b>				
Material and services consumption (-)	(105,644)	(107,188)	1,544	(1%)
Other Expenses (-)	(1,580)	(776)	(804)	104%
Risk and charges provision allocation (-)	(800)	-	(800)	-
Inventory change	(1,851)	2,014	(3,865)	(192%)
<b>Total Cost of goods sold</b>	<b>(109,875)</b>	<b>(105,950)</b>	<b>(3,925)</b>	<b>4%</b>
<b>C. ADDED VALUE</b>				
Labor costs (-)	(12,112)	(11,402)	(710)	6%
<b>D. GROSS OPERATING MARGIN (EBITDA)</b>				
Depreciation and amortisation (-)	(76,324)	(76,198)	(126)	0%
<b>E. NET OPERATING INCOME (EBIT)</b>				
Net financial income (expenses)	10	(24)	34	(142%)
Dividends	-	-	-	-
Revaluation (devaluation) of financial assets	-	-	-	-
<b>F. EARNINGS BEFORE TAXES (EBT)</b>				
Income tax for the period	(11,197)	(13,238)	2,041	(15%)
<b>G. PROFIT (LOSS) FOR THE PERIOD</b>				
	27,480	28,917	(1,437)	(5%)





2017 Net Earnings were at 27,480k Euro after tax expense provisions for a total of 11,197k Euro of which 9,567k Euro for corporate income tax (IRES), 1,597k Euro related to regional taxes on productive activities (IRAP), a negative adjustment of 61k Euro related to previous years' direct taxes and a positive adjustment of 28k Euro for prepaid taxes. Please refer to the specific section included in the "Notes to the Financial Statements" for further details. In the graph below the 2017 financial performance is compared with the previous two years; despite continued challenging market conditions over the period, EBITDA shows continued efficient and effective management of Company operations.



## Revenues

Gross revenues were 236,978k Euro, up by 1,249k Euro with respect to 2016. The increase is mainly related to higher national grid cost (pass thru) and marine revenues, resulting from higher number of cargos partially offset by lower regasification revenues, due to annual reconciliation invoiced in 2016 and not in 2017.

REVENUES	2017	2016	Abs. change	% change
(thousands of Euro)				
<b>A. REVENUE FROM SALES</b>				
Revenues from the regasification service	162,008	167,328	(5,320)	(3%)
Regasification revenues in kind	7,684	10,614	(2,930)	(28%)
Revenues related to balancing regime OBA	2,305	313	1,992	636%
Revenues from marine services	13,769	11,445	2,324	20%
<b>Subtotal Regasification and Marine Services</b>	<b>185,766</b>	<b>189,700</b>	<b>(3,934)</b>	<b>(2%)</b>
National Grid Revenues	50,930	44,012	6,918	16%
National Grid - own consumption	101	932	(831)	(89%)
<b>Subtotal National Grid</b>	<b>51,031</b>	<b>44,944</b>	<b>6,087</b>	<b>14%</b>
<b>Revenues from ordinary operations</b>	<b>236,797</b>	<b>234,644</b>	<b>2,153</b>	<b>1%</b>
<b>Other revenues and income</b>	<b>181</b>	<b>1,085</b>	<b>(904)</b>	<b>(83%)</b>
<b>Total production value</b>	<b>236,978</b>	<b>235,729</b>	<b>1,249</b>	<b>1%</b>

Revenues are recognized on the basis of actual services rendered and in line with contractual obligations. Similar to last year, 2017 revenues do include contractual capacity made available to users and not utilized, for which corresponding Make-Up balance increased by 31,087k Euro.



## Costs

In 2017, production costs were 198,311k Euro, up by 4,761k Euro from 2016.

As shown in the table below, the increase of 2017 costs was mainly due to:

- higher national grid costs (incl. own consumption) due to the higher volumes regasified (6.1M Euro) offset by
- lower costs for Use & Loss gas in kind from terminal users (2.9M Euro).

These costs are fully recovered from terminal users and corresponding recharge is reported as revenue.

Other notable variations include a decrease of third party costs for raw materials and services (5.0M Euro) and of costs related to services rendered by Quotaholders (2.0M Euro).

On the other hand, there has been an increase related to inventory variation (3.9M Euro), cost related to balancing regime (1.8M Euro), other costs (1.6M Euro), labour cost (0.7M Euro) and marine services costs (0.5M Euro).

COSTS	2017	2016	Abs. change	% change
(thousands of Euro)				
<b>B. COSTS OF PRODUCTION</b>				
Consumption of raw materials and services	(105,644)	(107,188)	(1,544)	(1%)
of which:				
Third Party Costs of raw materials and services	(31,451)	(36,434)	(4,983)	(14%)
Quotaholder Services	(4,173)	(6,173)	(2,000)	(32%)
Use & Loss gas in kind from Users	(7,684)	(10,614)	(2,930)	(28%)
National Grid Costs	(50,930)	(44,012)	6,918	16%
National Grid - own consumption	(101)	(932)	(831)	(89%)
Marine Services Costs	(9,228)	(8,711)	517	6%
Costs related to balancing regime OBA	(2,077)	(312)	1,765	566%
Labour costs	(12,112)	(11,402)	710	6%
Other costs	(2,380)	(776)	1,604	207%
Depreciation and amortisation	(76,324)	(76,198)	126	0%
Inventory variation	(1,851)	2,014	3,865	(192%)
<b>Total production costs</b>	<b>(198.311)</b>	<b>(193.550)</b>	<b>4.761</b>	<b>2%</b>

## Summary Balance Sheet

Company Balance Sheet is reclassified following the “functional criteria”. This approach applies the concept that the Company solvency is based on its ability to generate the necessary and sufficient resources, in quantity, quality and time to meet its financial needs. The reclassified balance sheet compares the net investments against total of Equity and net financial position.

Net invested capital as of 31 December 2017 was 2,018,713k Euro, down by 76,364k Euro from previous year. Decrease is mainly due to (i) the reduction in Fixed Assets Net Book Value (74,450k Euro), reflecting the yearly depreciation and (ii) the reduction of net working capital.

SUMMARY BALANCE SHEET	2017	2016	Abs. change
(thousands of Euro)			
<b>A. FIXED ASSET</b>			
Intangible	3,108	2,306	802
Tangible	1,993,430	2,068,682	(75,252)
Financial	-	-	-
	<b>1,996,538</b>	<b>2,070,988</b>	<b>(74,450)</b>
<b>B. NET WORKING CAPITAL</b>			
Inventory	13,006	14,857	(1,851)
Receivables	22,253	23,923	(1,670)
Other assets	8,961	7,475	1,486
Payables (-)	(17,105)	(18,352)	1,247
Other liabilities (-)	(3,679)	(3,397)	(282)
Provision for risks and charges (-)	(800)	-	(800)
	<b>22,636</b>	<b>24,506</b>	<b>(1,870)</b>
<b>C. INVESTED CAPITAL EXCLUDED LIABILITIES FOR THE PERIOD (A+B)</b>	<b>2,019,174</b>	<b>2,095,494</b>	<b>(76,320)</b>
<b>D. PROVISION FOR STAFF SEVERANCE INDEMNITY (-)</b>	<b>(461)</b>	<b>(417)</b>	<b>(44)</b>
<b>E. NET CAPITAL INVESTED (C-D)</b>	<b>2,018,713</b>	<b>2,095,077</b>	<b>(76,364)</b>
Financed by:			
<b>F. NET EQUITY</b>	<b>2,031,577</b>	<b>2,104,032</b>	<b>(72,455)</b>
<b>G. NET FINANCIAL BORROWING (AVAILABILITIES)</b>			
Mid and long-term loans			
Short-terms loans (-)	(12,864)	(8,955)	(3,909)
	<b>(12,864)</b>	<b>(8,955)</b>	<b>(3,909)</b>
<b>H. TOTAL SOURCES OF FUNDING (F+G)</b>	<b>2,018,713</b>	<b>2,095,077</b>	<b>(76,364)</b>



## Equity

Quotaholders' Equity was 2,031,577k Euro, down by 72.4M Euro from 2016. Equity reduction is due to (i) the partial refund to Quotaholders of the Equity Reserve "Versamento Soci in Conto Capitale" totaling 71.0M Euro, (ii) dividends payment for 28.9M Euro and (iii) 2017 Net Profit.

Partial refund of the Equity Reserve, without prejudice to creditors, and dividends payment were in line with Quotaholders' resolutions on 17 January 2017 and on 26 April 2017 respectively and as detailed in the approved 2017 Financial Plan for refunding form and timing.

EQUITY	2017	2016	Abs. change
(thousands of Euro)			
Capital stock	200,000	200,000	-
Legal Reserve	40,000	40,000	-
Reserve for Quotaholders capital contributions	1,753,302	1,824,302	(71,000)
Other Reserves	10,795	10,813	(18)
Retained Earnings / (Losses)	-	-	-
Gain / (Loss) for the period	27,480	28,917	(1,437)
<b>Total</b>	<b>2,031,577</b>	<b>2,104,032</b>	<b>(72,455)</b>

## 1.2.4 Safety, Security, Health and Environment

The goal of Company management is to operate with zero injuries or occupational illnesses, zero spills and regulatory exceedances and no significant loss of containment, equipment damage or business loss. Management's first priority is to systematically control risk by ensuring the effectiveness of the Company's integrated Safety, Security, Health & Environmental Management System (SHEMS).

In 2017 we have adopted the Barrier Model concept in the identification and effective management of risks, and the analysis model utilized for incident investigations for capturing lessons learnt and for improving safety barriers. Seven Process Safety Actions have been deployed to terminal and

shore base supported from Adriatic LNG case studies, to sustain understanding of key elements and their relevance to Adriatic LNG operations. The Barrier Model was applied also to Major Accidents Hazards risk scenarios.

Contractor Key Performance Indicators have been tailored for each critical contractor and included in contracts clauses; they are now consistently reported quarterly in the Contractor Performance Self Evaluation. SSHE performance monitoring, including training requirements and gap mitigation plan analysis, have been enhanced in the direction of a fit-for-risk approach towards contractors.

Since January 2017 long term sustainability of the SHEMS implementation plan was enhanced requiring to share with the SHEMS Steering Committee considerations around resources accountability, reporting and measurement of the item and training or communication program for all the high, medium and low priority actions.

A full SHEMS Assessment was conducted in May 2017 with the scope to verify to what extent the SHEMS Expectations and Guidelines are met and to verify compliance to the Major Accident Hazards Prevention Directive. The team consisted of eight external assessors (primarily from ExxonMobil Qatar, South Hook LNG terminal and one local consultant) and five Adriatic LNG employees, under the leadership of Adriatic LNG Operations Manager. More than one hundred interviews took place during the two weeks of full time activities, all sites were visited, contractors interfaces were tested and witnessed two emergency response exercises. Seven systems achieved the score of 4.0 and only 2 systems have the status that needs more improvement, which resulted in an overall system effectiveness of 3.6 (was 3.4 in 2014).

An implementation plan is already being worked to enhance all systems, with primary focus on the higher priority areas.

## Safety

Safety Leadership and guidance is provided through the Company SSHE Steering Committee, three site Safe Operating Committees (SOCs) at the terminal, shore base and Milan office and various Work-Site Safety Committee Meetings (WSSCs).

During 2017, the Company experienced one low severity Lost Time Incident (LTI) occurred at the offshore terminal, and 4 First Aid Incidents (3 at the offshore terminal and one at the shore base). Total Recordable Incident Rate (TRIR) through December 2017 is 0.42.

Managing the safe performance of contractors continued to be a key focus area of Adriatic LNG in 2017. The Company successfully organized a Senior Contractor Safety Forum together with critical key contractors sharing experience, lessons learned and knowledge of best practices from other industries and to demonstrate leadership in SHE management. A Contractors Safety Award program was launched during in 2017 and will be awarded to contracting companies who have been engaged with Adriatic LNG for 12 months or greater and achieve at least one Hurt-Free year. The MD Safety Award will also be presented to the selected contractor based on pre-defined criteria.

Lessons learned from incidents continued through 2017, also enhanced by the active participation in the SHE Network Quarterly Terminals conference calls managed through ExxonMobil Qatar, in which the participants (from the Adriatic LNG, South Hook LNG and Golden Pass LNG terminals) have the opportunity to share not only incidents or near losses occurred at each worksite, but also lessons learned and improved practices.

The Process Safety Initiative launched during the second half of 2016 continued through the 2017, with the main objectives to adopt the Barrier Model concept in identifying and effectively managing risk; Process Safety Actions in place to sustain understanding of key elements and their relevance in Adriatic LNG Operation; Incident investigations utilizes the barrier model to ensure an effective means of capturing and sharing lessons learnt.

As part of the LPS (Loss Prevention System) Beha-

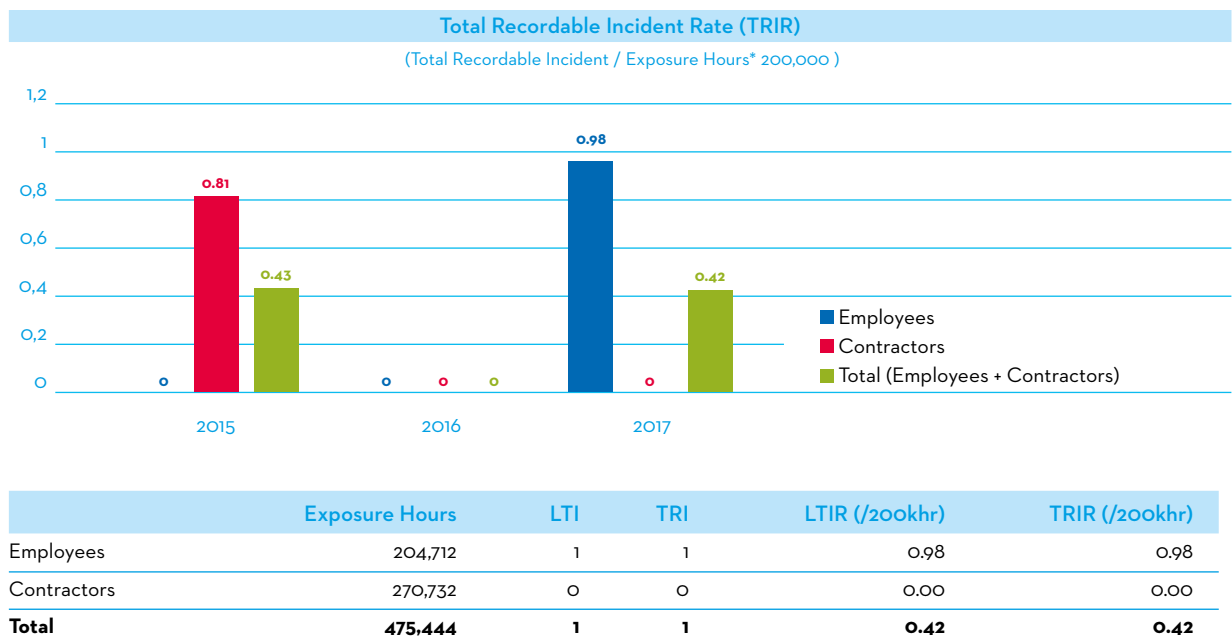




Behavior Based Safety System, an annual collective incident analysis will be conducted during the first quarter of 2018, with the main objective for identifying improvement opportunities for prioritizing programs, selecting initiatives and deciding where resources can be most effectively directed for loss prevention activities. Adriatic LNG rolled out a fit for purpose office safety program in July 2017. Incident Analysis performed on incidents or near losses has substantially improved, also due to a more effective use of IRAT and PHL tools, and a more robust incident review performed on a weekly basis with the participation of site leaders and advisors. Incident Analysis includes the review of the

types of injuries, equipment types, root causes, impacted SHEMS systems and leverage loss, near loss. Analysis is stewarded at SSHE Steering Committee Monthly Meeting and it is cascaded to all levels of the organization through Safety Meetings and Safety Boards. An analysis module is in place as part of the LPS Database, which supports sustainment and multi-year time range for a wider perspective.

The graph and table below show an overview of safety performance achieved by the Company during 2017 and report the number of exposure hours, safety incidents (Lost Time Incidents and Total Recordable Incidents) and resulting rate.



Key: LTI - Lost Time Incidents - Incidents causing the injured party to be unfit to return to work the following work day  
 TRI - Total Recordable Incidents - the sum of LTIs, Restricted Work Incidents (RWI) and Medical Treatment Incidents (MTI)  
 LTIR - Lost Time Incidents Rate  
 TRIR - Total Recordable Incident Rate

## Security

The Company adopted a systematic approach to security by means of dedicated Security Plans covering onshore and offshore sites. The Security Manual and Plans document and describe the security responsibilities, measures and procedures adopted and implemented for the terminal, Milan office and shore base. No security incidents occurred at Company sites during 2017.

For the offshore terminal, in accordance with the International Convention for the Safety of Life at Sea (SOLAS) Parts A and B amendments (ISPS Code), a Port Facility Security Plan (PFSP) has been adopted. The PFSP establishes procedures for the division of responsibilities between the gas carrier and the terminal in relation to the security objectives. It identifies the Port Facility Security Officer (PFSO) and the other internal and external security organizations including their contact information; it improves security at the shore base, heliport and offshore terminal by promptly identifying, preventing and responding to security incidents and it ensures that records of the security operations are kept with a view of tracing and handling any non-conformity. The aim of the ISPS Code is to improve maritime security by laying down an international context which encourages cooperation between the signatory governments, designated authorities, organizations, shipping companies and the other parties involved in setting up preventive measures against threats to the security of port facilities and ships involved in international traffic.

Adriatic LNG has adopted a “defensive” approach with specific security training plans to ensure full compliance with the requirements defined for the different Adriatic LNG Premises and for the ISPS Code. A consolidated training plan (base and refresh) for all those involved into the Security within the three Adriatic LNG premises is in place. To ensure the effective application of the PFSP and Security Plans for Milan offices and Shore Base, drills and controls are carried out at appropriate intervals to each Site Security Activity Plan, of the kind of operation performed in the facility, the rotation of plant personnel, the types of vessels that serve

the facility and other relevant circumstances.

Three security levels have been defined at Adriatic LNG premises equivalent to those applied for the ISPS at terminal. Specific security measures have been adopted on the basis of the security level in force (MARSEC levels).

The Full SHEMS Assessment conducted in May 2017 after the shore base relocation incorporating the Adriatic LNG Heli surface for Aviation Operation, confirmed the higher standards in place and the system 5C Security Management was subsequently rated with a system effectiveness of four. The high level of commitment and professionalism of security team had been demonstrated after the storm in August 2017 that caused serious damages at the shore base, all the appropriate security measures were taken and implemented effectively.

## Health

Legislative Decree 81/2008 lists the general safety and health protection measures of workers at work. Main applicable health-related measures and activities undertaken in 2017 are as follows:

- health exposure monitoring campaigns;
- execution of an extensive health surveillance plan for employees continued in 2017. Medical examinations are carried out periodically by Company's doctor, to check the workers' medical fitness;
- alcohol and drug tests, executed offshore by Company's physicians, resulted in good outcome for a total of 450 tests conducted in 2017;
- internal verification of compliance with Legislative Decree 81/2008 was executed in 4Q. No major non-compliances were identified.

Training and information to workers will continue to be an ongoing activity at all locations over the coming years.





## Environment

The Company's operations from an environmental perspective are strictly regulated. The overall impact of terminal operations on the environment was assessed and environmental monitoring plans established within the Environmental Impact Assessment (EIA) decrees, dated 30 December 1999 and dated 12 October 2004. All emissions, both to water and air, as well as waste, are controlled by the Integrated Pollution Prevention & Control (IPPC) Permit (Autorizzazione Integrata Ambientale, AIA) issued in 2009 for a five-year period and renewed with Decree n. 265 dated 6 October 2016. In compliance with AIA Decree requirements, an implementation plan for the new monitoring activities was developed and approved by Control Authority (ISPRA); the Plan is being executed accordingly. IPPC Permit Audit conducted by ISPRA supported by Regional Environmental Agency with team of nine inspectors from October 23 to 25. No violations identified during inspection.

The Company is required to participate in the European Union Emissions Trading System (ETS) which sets strict measurement requirements for CO<sub>2</sub> emissions and necessitates CO<sub>2</sub> allowances to surrender to the regulator to cover all CO<sub>2</sub> emissions.

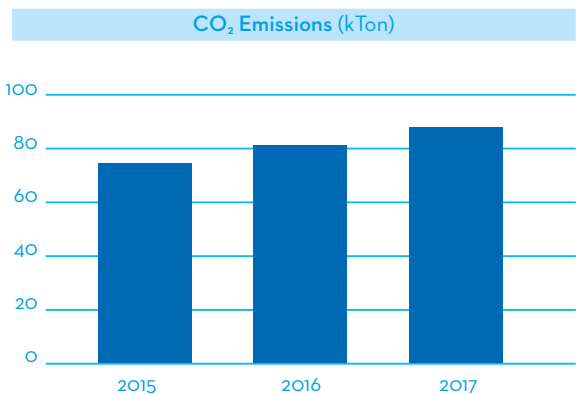
The primary source of CO<sub>2</sub> emissions for the Company is the fuel gas consumed in the natural gas turbine generators, representing more than 98% of its total CO<sub>2</sub> emissions. The rate of emissions is therefore linked to the demand for power mainly driven by actual regasification activities. The secondary source of CO<sub>2</sub> emissions is from flaring, the majority of which occurs during shutdown events.

The European Union Emissions Trading System (ETS) Phase III covers the period 2013-2020; for this period the Company has been granted free allowances, as per Ministry of Environment (MoE) deliberation n. 29/2013 dated 20 December 2013, that decreases the free allowance allocation for the Company each year until reaching 33% of the 2013 level in 2020.

At the end of 2017, the Company has a credit totaling 4,586k Euro for CO<sub>2</sub> rights related to the ETS

Phase II (2008-2012), during which according to law decree 72/2010, being a "newly-appointed" operator (so-called "nuovo entrante"), in spite of receiving free allowances the Company was assigned monetary claims. In January 2015 the Company applied for CO<sub>2</sub> credits reimbursement to the Ministry of Economic Development, as requested by the ministerial decree dated 21 February 2014: the application is currently ongoing with the competent Ministry.

The CO<sub>2</sub> emission trend for ETS Phase III is detailed in the graph below (2017 actual CO<sub>2</sub> emission data represents the best estimate and will be verified by an External Auditor prior to CO<sub>2</sub> allowances surrender by 30 April 2018 as per law decree 216/06). Increase of CO<sub>2</sub> emissions in 2017 is mainly due to increased number of LNG tankers received.



The Company is pursuing the waste management principles of Reduce, Reuse and Recycle. Regulations control the identification, transportation and disposal of waste. The Company has established waste collection, segregation, transportation and disposal procedures and controls in compliance with the applicable legal requirements.

Since 2010, an extensive marine sampling and monitoring campaign has been implemented by the National Institute for Environmental Protection & Research (ISPRA) around the terminal and along the pipeline in order to sample and test the impacts of terminal operations on marine ecosystems as per the Environmental Impact Assessment (EIA) decree requirements. In 2017 a new five-year environmental impact monitoring plan was issued by

ISPRA. Currently plans for new organizational arrangements within ISPRA and between ISPRA and other environmental agencies pursuant to new law dated 28 June 2016 prevent ISPRA from renewing the contract with Adriatic LNG for environmental monitoring to date; therefore, the execution of the plan was awarded to OGS (Istituto Nazionale di Oceanografia e di Geofisica Sperimentale), a public institute specialized in marine, and especially Adriatic Sea, ecosystems monitoring.

The Company will maintain a strong and constant focus on environmental regulatory compliance, operations integrity and surveillance in order to prevent nonconformities, spills and exceedances.

## 1.2.5 Human resources and industrial relations

As of 31 December 2017 the Company had 123 employees. The increase with respect to previous year is due to the accomplishment of the recruiting process for employee replacements in the Operations and Technical departments. The progressive replacement of secondees with direct hires is a key element of the staffing strategy.

Training plans, as well as systematic performance assessments and job rotations, will ensure that direct hires are gradually exposed and equipped with the professional skills and experience required for assuming positions of increasing supervisory and managerial responsibility. Special efforts have been made in creating a People Strategy designed to ensure a timely and systematic approach to the planning of the company human resources.

The Company headcount at year-end 2017 had the following composition:

- 3 managers
- 19 supervisors
- 82 professional employees
- 11 technicians/wage workers
- 8 resources seconded from the Quotaholders or their affiliates (3 foreigners and 5 Italians).

2017 employee movements are shown in below table:

	31/12/2016	Incoming	Outgoing	Reclassified	31/12/2017
Managers	2	1	0	0	3
Supervisors	15	0	0	4	19
Professional employees	82	2	(1)	(1)	82
Technicians/wage workers	13	0	0	(2)	11
Secondee from Quotaholders or their affiliates	9	1	(2)	0	8
Secondee to Quotaholders or their affiliates	1	0	(1)	0	0
<b>Total*</b>	<b>122</b>	<b>4</b>	<b>(4)</b>	<b>1</b>	<b>123</b>

\*temporary resources not included in the total





Employment contracts used were, for managers, the Managers of Producers of Goods and Services Companies National Labour Collective Agreement, and for other employees, the Energy and Petroleum National Labour Collective Agreement.

With regards to the Productivity Premium, all three sites have confirmed outstanding results, addressing the scope of the system that aims to encourage individual participation to the Company performance. Negotiations for the Company Agreement renewal, valid throughout the period 2017-2019, was successfully concluded with the renegotiation of the Productivity Premium and the revision of the Company performance indicators to support the Company in achieving more challenging results. The new Company Agreement has seen also the introduction of two significant improvements for the employees' work-life balance: the Welfare program and the Smart Working initiative.

In the area of Compensation and Benefits, the Adriatic LNG total remuneration package has been compared using the expected market movement received for our peer group (HayGroup data). In 2017 the Company competitiveness and internal equity has been maintained aligning the salary curves in respect of such input. During the end of 2017 the periodical Oil National Labor Contract performance-rewarding review, called CREA has been performed for all the Adriatic LNG population. As per the compensation policy in place, the integration of the Company merit increase program with CREA has been maintained.

## 1.2.6 Fiscal matters

The overall taxes and levies balance at year-end shows a credit of 2,468k Euro and is reported into relevant Balance Sheet sections.

### Direct taxes

For 2017 tax expense provisions totaled 11,197k Euro of which 9,567k Euro for corporate income tax (IRES), 1,597k Euro related to regional taxes on productive activities (IRAP), a negative adjustment of 61k Euro related to previous years' direct taxes and a positive adjustment of 28k Euro for prepaid taxes. As of 31 December tax advances amounted to 10,911k Euro for IRES and 1,593k Euro for IRAP.

In December 2017 the Company received a tax reassessment for 2012 corporate income tax (IRES), related to 2010 and 2011 losses carried forward. The Company appointed a preeminent tax-consulting firm to support the hearing with the Authorities on the matter.

### Indirect taxes

On December 2016 the Company received a tax calculation notice issued by the Porto Viro municipality (Rovigo) for 2010 ICI (property) tax related to the terminal site for a total amount of 3,642k Euro (of which 3,010k Euro base tax and 632k Euro interest). During 2017, the Company decided to challenge the tax assessment notice by filing an appeal on 20 February 2017 to the Provincial Tax Commission of Rovigo. The judging commission has been designated and the court hearing is still to be set. In December 2017 the Company received tax calculation notices for 2011 and 2012 ICI/IMU tax for a total amount of 20,400k Euro (of which 6,424k Euro base tax, 1,128k Euro interest and 12,848k Euro penalties).

2018 Italian Budget Law (n.205 December 27, 2017) includes an article (c. 728) limiting the ICI/IMU taxable basis for offshore regasification plants to living quarter assets only. The new rule is interpreting prior years' legislation and it is applicable from 2010 onward for Adriatic LNG terminal. In view of

the new law, the Company started the process of tax assessment discussion with the Porto Viro municipality.

With respect to the excise duty on diesel intended for exempt use and for which company has already filled reimbursement requests, a follow-up with authorities is continuing to ensure reimbursements of the outstanding credits. With regard to the excise duties paid for diesel consumed in 2015 and 2016, the Company received partial refund (130k Euro out of the total requested of 140k Euro) and is awaiting clearance.

According to Italian Accounting Standard OIC 31 requirements, under a precautionary approach and based on the conclusions drawn by the tax consultants, provisions for a total amount of 800k Euro have been recognized in 2017 Financial Statements, including the 2012 IRES reassessment and the 2010-2017 ICI/IMU assessments.



# 3

## RISK MANAGEMENT AND CONTROLS ENVIRONMENT

Management is regularly monitoring those areas of risk to which the Company could be exposed and specific committees or internal control bodies have been appointed for this purpose.

The Company established a set of standards and policies and continues to develop strategies and specific goals and expectations at different organizational levels, while at the same time providing the necessary resources to operate in an environment of integrity, security and control.

The Controls Integrity Management System, or CIMS, has been implemented to provide a structured, common process for conducting business in a well-controlled manner. This includes establishing effective controls, monitoring and enforcing compliance continuously, and resolving control weaknesses in a timely manner.

Since May 2005, the Company has been audited nine times. In 2016, a team including auditors from all three Quotaholders conducted an “all Company” audit with successful results. Some comments were raised as well as identification of few improvement opportunities. All comments are now closed as per agreed actions and timeline.

Based on Adriatic LNG 2016 Quotaholders’ Audit satisfactory opinion, Adriatic LNG’s maturing controls environment is evident in the decreasing number and significance of audit findings (since 2006). The sustainability of Adriatic LNG’s sound controls environment is supported by:

- strong leadership and personnel commitment on controls;
- policies, guidelines and procedures in-place;
- CIMS Permanent Control Activities and interim assessments functioning as expected;
- Governance established to provide effective compliance oversight and to ensure controls weaknesses are addressed timely, stewarded and sustained;

- stable organization with low turnover levels.

Based on current information, it is planned that Quotaholders will exercise their audit rights by conducting audits on a triennial frequency with each audit covering all Adriatic LNG’s activities and processes. The next Quotaholders Audit is scheduled to have fieldwork in May 2019.

During May 2018, a team of employees with an adequate expertise in control matters will conduct a Company-wide Unit Internal Assessment (UIA).

The results and activities of the Company in its various functional components are constantly stewarded by the Company Management Team which is led by the Managing Director and includes all department managers.

Key performance indicators have been identified in order to monitor the operating and financial results as well as efficiency and controls and are periodically reviewed by Company management.

In accordance with regulations the Compliance Team (Organismo di Vigilanza per D.Lgs 231/01) and Guarantor (ARERA resolution ARG/gas 11/07) have been appointed and regularly conduct their reviews and perform required verifications with periodical reporting to the Board of Directors and the Board of Statutory Auditors.

The following sections provide information on the main risks of corporate nature or otherwise, including those related to litigation.



## 1.3.1 External risks

### 1.3.1.1 Credit risk

The Company considers the credit risk to be limited. In fact, the terminal users, with whom the Company has signed long-term contracts (ten-years and twenty-five-years), are primary companies in the energy sector.

Any potential credit risk associated with the regasification activity is managed by the responsible department and subject to specific assessment and control procedures, under the Regasification Code prior to capacity allocation. Specifically, the Regasification Code requires bank guarantees to any user with Moody's rating below Baa3 or S&P rating below BBB-. The Company also uses procedures which provide, where applicable, advance payment clauses (e.g. provision of marine services). For aforementioned reasons, no specific reserve has been recorded and no provisions made for bad debts.

### 1.3.1.2 Foreign exchange and interest rate risks

The Company does not operate on the currency market and foreign exchange rate risk is limited to normal currency variations related to operating contracts in foreign currencies, primarily connected to payables in US Dollars.

The Company is not exposed to interest rate fluctuations because it neither operates with derivatives nor has financial charges from debt, having been largely financed through capital contributions from Quotaholders. As discussed in a previous section, the cash flow generated by operating activities funds the Company's financial requirements.

### 1.3.1.3 Regulatory risks

The Company operates in a continuously evolving regulated market with high relevance for environment impacts. Therefore a constant monitoring of the development and introduction of new applicable regulations is critical to ensure Company operations do meet related requirements.

The Company's management constantly reviews potential or newly introduced requirements and is in contact with the relevant authorities and agencies to ensure that new standards are implemented correctly and in accordance with the general principle of cost effective management. Company's management participates, as required, in regulatory consultation processes.

Specific sections in this document provide more information and updates on regulatory and authorization activities.

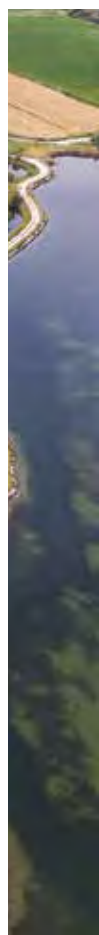
### 1.3.1.4 Risks involved in legal disputes

In the course of its business, until the end of December 2017, the Company was directly or indirectly part of the proceedings in disputes that are constantly monitored by the Legal Department, with assistance from external lawyers.

The following list provides an analysis of ongoing court litigation for the Company.

#### **Challenges filed by Terminale GNL Adriatico S.r.l. with TARs**

- On 31 January 2014 and 24 October 2014 the Company has filed two challenges against the Regulatory Authority for Energy Infrastructures and Environment (ARERA) with TAR Lombardia for the same issue: the unilateral reduction by Energy Authority of the maritime services tariff in resolutions n. 604/2013/R/Gas and n. 335/2014/R/Gas. The hearing is yet to be







defined and there are no further developments since December 2015.

- On 29 October 2015 the Company has filed a challenge with TAR Lazio against the Ministry of Environment against its warning for alleged non compliance with IPPC decree dated 11 August 2015 and ISPRA related reports dated 4 August 2015 and 23 September 2015. The hearing is yet to be defined and there are no further developments since December 2015.

#### **Challenges filed by other parties with TARs**

- Challenge filed by BP Energy Europe Ltd vs. Regulatory Authority for Energy Infrastructures and Environment (ARERA) with TAR Lombardia. BP Energy Europe Ltd, a user of the regasification service, has challenged resolution n. 653/2017 on regasification tariffs and n. 660/2017 on allocation of capacity. The Company has been notified as interested party. The Company has partaken in the case.
- Challenges filed by BP Energy Europe Ltd vs. Ministry of Economic Development (MED) with TAR Lombardia. BP Energy Europe Ltd, a user of the regasification service, has challenged the MED decree dated 25 February 2016 and the resolution of the Energy Authority n. 77/2016/R/GAS dated 29 February 2016 on the tender for the allocation of sc. "integrated service" for 2016 (short term regasification and storage services combined). The Company has partaken in the case.

#### **Criminal case lodged against Managers with the Rovigo Tribunal**

In January 2011, a criminal case for alleged environmental crimes related to the operation of the terminal (i.e. foam at sea production caused by mechanical process) has been brought against an employee and a Quotaholders' seconded employee (no longer seconded to the Company). On 9 November 2016, the Rovigo Tribunal stated, in first instance, a full acquittal pursuant to article 530 of the Criminal Code, by finding both accused persons not guilty. No appeal has been lodged against the Rovigo Tribunal decision.

In light of the opinions expressed by the Legal Department based on the available information and the due diligence analysis of the above pending cases, as set out in this section, it was concluded that contingent liabilities involved and applicable accounting principle do not require setting up a provision for these risks for year 2017.

### **1.3.2 Operating risks**

The operation of the terminal, the first offshore concrete regasification plant in the world, presents unique complexities in addition to the more common operational risks related to Safety, Health and Environment of an onshore regasification plant.

However, the terminal location at 15 kilometers from the coast represents a reduction of detrimental impacts to people in the community, property and the environment, that could arise from events outside the control of the Company and beyond its will such as, explosions, fires, earthquakes and similar. Nevertheless, the major accident hazards are still taken into consideration by the management of the Company in the Safety Case, according to the Seveso Law for the purposes of prevention and control as well as for the assessment of the available insurance coverage.

The terminal consists of interdependent processing modules and any risk of malfunction of the units and systems involved in regasification as well as the loss or damage to technical components and/or equipment installed or being installed on the terminal may cause a service interruption with potential effects on the Company profitability.

These issues are mitigated by the implementation of the framework of prevention and control provided by SHEMS, the status of which is described in section "1.2.4 Safety, Security, Health and Environment".

The Company has also engaged with leading insurance brokers and implemented an insurance program (Operating Insurance Program) to cover risks related to ownership and execution of activities carried out on the terminal.

### 1.3.3 Liquidity risk

The fulfillment of financial obligations of the Company depends on the payment regularity of two major users. In case of non-fulfillment of obligations by counterparts, liquidity risk hedging is guaranteed by the Quotaholders.

### 1.3.4 Strategic risks

The Company is exposed to the risks associated with the political and regulatory framework, and domestic and international competition. This may affect the ability to attract new LNG users when regasification capacity is available. In order to mitigate such risks, the Company is structured with an efficient organization and with a complete system of internal control processes. During 2017 such processes have ensured the regular and satisfactory operations along with financial and economic results, confirming the ability to continue disciplined capital expenditures within budget.

The results obtained during this eight year of operation confirmed the expectations about the profitability and financial capacity levels, while the long-term models indicate a capacity to generate positive cash flow over time to secure profitable margins as regards both the Company and the contracts with users. The return on investment at a reasonable discount rate is influenced by the regulated tariff system and the predetermined tariff methodology for the Foundation Capacity services agreed in May 2005 as part of the entire set of transaction agreements for the supply and purchase of LNG from Qatar. These agreements were executed consistent with the Third Party Access exemption and other authorizations obtained. For reference, the Third Party Access exemption has been obtained from the Ministry of Economic Development (former Ministry of Productive Activities) following ARERA positive advice (resolution 206/04) recognizing the need for a dispensation for “the level of risk associated with the investment” and that the Antitrust Authority, with resolution da-

ted 25 March 2004 no. 13036, has released positive advice to establish a dedicated joint venture for the purpose of developing an additional source into the Italian gas market, to be realized through the Company.

For the purpose of monitoring the main variables and related impacts of this situation, long term models will be updated incorporating the objective information available, as well as any other necessary medium and long term assumptions.

### 1.3.5 Information Technology

The Company has maintained stable computer systems for key business processes, such as process control and monitoring of terminal operations, gas measurement and inventory management, cost control, procurement and invoicing. The risk of service disruption due to system failure was considered, and solutions have been implemented to reduce the risk of system failure (redundancy) as well as to minimize information loss (regular back up and business continuity plans).

Company is continue focusing on cyber-security matters by adopting an integrated approach and constantly increasing levels of attention through periodic trainings and implementing cyber-security programs and barriers leveraging external IT provider expertise.

### 1.3.6 Provisions for risks and charges

With reference to the activities of risk management and control environment, the Company assessed need for provisions to special funds for risks and charges limited to fiscal items, as disclosed in previous section “1.2.6 Fiscal matters”.

With regards to potential provisions related to restoration costs, the Company completed in 2015 the assessment regarding potential restoration costs as requested by ARERA. Adriatic LNG obtained a technical appraisal by an independent





engineering consultant company with the estimate of potential restoration costs, and, by a leading firm in the sector, a study drawing long term scenarios of energy and gas consumption, which confirmed correctness of the assumption that the terminal will still be of strategic importance to the diversification and supply of the European and Italian energy system in 2052 and beyond. Lastly, to complete such comprehensive and complex analysis, the Company obtained, from a preeminent consultant firm, an opinion on civil law, administrative and accounting aspects of the matter. Based on the outcome of above mentioned analysis and studies, the opinion concluded that the risk of the Company incurring potential restoration costs should be assumed as remote. During 2017 there were no significant events that would trigger the need to revisit and update the previously mentioned analysis, thus the Company holds those conclusions still valid in regard to the long term energy outlook and the opinion on civil law, administrative and accounting aspects. Therefore, accordingly to OIC 31 requirements did not recognize any provision for potential restoration costs in these 2017 Financial Statements.

The Company, with the aim to opportunely monitor the risk evolution, currently assumed as remote, will request, in case of significant events, a periodic update of both the technical appraisal and the long-term energy outlook.



## OTHER INFORMATION

(pursuant to articles 2427 - 22 bis, 22 ter, 2428 and 2497 - bis of the Civil Code)

### 1.4.1 Stocks or shares of companies

As of 31 December 2017, there are no parent company shares in the portfolio, even indirectly held through subsidiaries, trust companies or proxies. During the year no operations were done related to shares of parent companies, whether direct or by other indirect means.

### 1.4.2 Relations with controlled, affiliated, controlling companies, companies controlled by parent companies and corporate governance

As of 2 May 2005, following the end of Edison S.p.A.'s governance, the Company operates in line

with the new By-Laws which outline the specific roles of the Quotaholders and those specific to the Board of Directors, including nomination criteria. Based on Company By-Laws, none of the Quotaholders uniquely governs the Company.

For services such as personnel secondment, consultancy, administration and accounting services or other professional services being requested to Quotaholders - or their affiliates - the Company has signed a Service Agreement with Quotaholders in line with current market conditions.


The table below shows the Company's relations with Quotaholders - or their affiliates - by category and layout in compliance with disclosure requirements set by the art. 2427 - 22 bis of the Italian Civil Code.

Year 2017										
(amounts in thousands of Euro)				Costs			Revenues			Investments
	Receivables	Payables	Guarantees	Obligations	Goods	Services	Other	Goods	Services	Other
Qatar Terminal Limited	-	9	-	-	-	-	-	-	-	-
ExxonMobil Italiana Gas S.r.l.	-	-	-	-	-	-	-	-	-	-
Edison S.p.A. (1)	17,723	2,525	-	-	8,289	-	83	-	171,848	-
Snam S.p.A. (1)	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>17,723</b>	<b>2,534</b>	<b>-</b>	<b>-</b>	<b>8,289</b>	<b>-</b>	<b>83</b>	<b>-</b>	<b>171,848</b>	<b>-</b>
ExxonMobil Qatar Ltd. (2)	-	985	-	-	-	3,097	-	-	-	-
ExxonMobil Qatar Inc. (2)	-	-	-	-	-	1,075	-	-	-	-
Esso Italiana S.r.l.	12	-	-	-	-	-	-	-	77	-
Snam Rete Gas S.p.A.	355	-	-	-	1,140	50,930	-	-	1,453	-
<b>Subtotal</b>	<b>367</b>	<b>985</b>	<b>-</b>	<b>-</b>	<b>1,140</b>	<b>55,103</b>	<b>-</b>	<b>-</b>	<b>1,531</b>	<b>-</b>
<b>Total</b>	<b>18,090</b>	<b>3,519</b>	<b>-</b>	<b>-</b>	<b>9,428</b>	<b>55,103</b>	<b>83</b>	<b>-</b>	<b>173,378</b>	<b>-</b>

(1) On 13 October 2017, Edison S.p.A. and Snam S.p.A. announced the respective sale and purchase of the equity quota of Terminale GNL Adriatico S.r.l.

(2) Providing services as per Service Agreement on behalf of ExxonMobil Italiana Gas S.r.l., ExxonMobil Qatar Ltd. was assigned the business previously operated by ExxonMobil Qatar Inc. since 1 April 2017.





Furthermore, and pursuant to disclosure requirements set by art. 2427 - 22 ter of the Italian Civil Code, the Company has no other agreements that were not represented as such within the Balance Sheet.

### 1.4.3 Future investment plans and financial resources

#### Investments

In addition to minor projects mainly aimed to meet new safety or environmental requirements, the investment plans for 2018 include potential execution of the Small Scale LNG project to allow a new service consisting in the reloading of smaller carriers. This project is still subject to BoD approval.

#### Financial resources

Planned investment activities can be funded by the estimated positive cash flow in line with the assumptions of the 2018 Financial Plan.

### 1.4.4 Headquarters and Secondary offices

The Company does not have any secondary offices. During the month of January 2017 the Company moved the shore base to via Cristoforo Colombo, 3 located in Porto Viro municipality. The Company has the following local units at the preparation date of these Financial Statements:

- Headquarters in Piazza Sigmund Freud, 1 Milan (MI)
- Via Cristoforo Colombo, 3 - Porto Viro (RO)
- Regasification plant - Territorial Water - LT 45°05'26.294"N LG 12°35'04.973"E
- Acquamarza Bassa District - Cavarzere (VE)

### 1.4.5 Independent auditors

The Financial Statements for the period ended 31 December 2017 which is submitted for approval was audited by PricewaterhouseCoopers S.p.A. on the basis of the auditing mandate for the 2017-2019 three-year term as resolved by the Quotaholders' Meeting on 26 April 2017. In this occasion, Quotaholders also commissioned PricewaterhouseCoopers S.p.A. to carry out the accounting control duties which include periodic checks on the correctness of the accounting information.

### 1.4.6 Future years overview

The Company's management will continue to be fully committed in achieving all targets as set out in the approved 2018 Work Program & Budget. In the first quarter of 2018, no significant deviations on costs and revenues were noted. The Company will continue to operate with the same focus on safety and health, care for the environment and business controls as demonstrated throughout the project development and in the first seven years of full commercial activities. Over the next few years, the Company will continue to work with local authorities, associations and NGOs, and seek opportunities to engage the community on the following:

- safety and health;
- environment and energy efficiency;
- culture and education.

## 1.4.7 Research and Development

During 2017 the Company did not incur research and development costs.

## 1.4.8 Financial Instruments

The Company has not issued Financial Instruments.

For the Board of Directors

**The Chairman**

Homoud Fahad Homoud Sultan Al-Qahtani



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# FINANCIAL STATEMENTS

AT 31 DECEMBER 2017



The Financial Statements for 2017 include the Balance Sheet, Income Statement, Cash Flow Statement and the Notes to the Financial Statements.

The Financial Statements were prepared in compliance with article 2423 and following articles of the Italian Civil Code and they represent truthfully and correctly the financial position of the Company and the result for the period ended as of 31 December 2017.

The Balance Sheet and Income Statement formats are compliant respectively with articles 2424 and 2425 of the Civil Code. Accounts bearing Arabic numerals that are not reported have a zero balance in both the current and previous year.

In the event that reclassifications have been deemed as necessary within the Balance Sheet or Income Statement, balances related to previous years have been reclassified accordingly.

The Notes to the Financial Statements include the prospects prepared in accordance with current legislation, or an explanation as to why they are not reported if missing.

The currency for all Financial Statements is the Euro.

The Financial Statements for the year are subject to external auditing by PricewaterhouseCoopers S.p.A., following the three-year mandate (2017-2019) assigned to them by the Quotaholders' resolution dated 26 April 2017.





# 2. BALANCE SHEET

ASSETS (in Euro)	31.12.2017	31.12.2016		
<b>B) Fixed assets, with those in financial leasing indicated separately</b>				
I. Intangible assets:				
4) concessions, licences, trademarks and similar	643,465	549,972		
6) assets under construction and advances	174,606	814,458		
7) other	2,289,350	941,963		
Total	3,107,421	2,306,393		
II. Property, plant and equipment:				
1) land and buildings	1,080,374,928	1,111,313,222		
2) plants and equipment	906,215,600	950,006,915		
3) industrial and commercial equipment	1,669,175	2,033,775		
4) other assets	3,672,570	3,874,682		
5) assets under construction and advances	1,498,003	1,453,689		
Total	1,993,430,276	2,068,682,283		
<b>Total fixed assets (B)</b>	<b>1,996,537,697</b>	<b>2,070,988,676</b>		
<b>C) Current assets</b>				
I. Inventories:				
1) raw, auxiliary and consumer materials	13,005,897	14,857,343		
Total	13,005,897	14,857,343		
	Amount due in more than one year			
	31.12.2017	31.12.2016		
II. Receivables:				
1) from customers	-	-	22,253,074	23,922,634
5-bis) tax credits	-	-	2,963,342	1,408,153
5-ter) prepaid taxes	-	-	28,465	-
5-quater) other	-	-	4,941,978	4,909,907
Total			30,186,860	30,240,694
IV. Cash and equivalent:				
1) bank accounts			12,863,942	8,954,248
3) petty cash			48	783
Total			12,863,990	8,955,031
<b>Total current assets (C)</b>			<b>56,056,746</b>	<b>54,053,068</b>
<b>D) Accrued income and prepaid expenses</b>				
- accrued income			371	777
- prepaid expenses			1,027,244	1,156,166
<b>Total accrued income and prepaid expenses (D)</b>			<b>1,027,615</b>	<b>1,156,943</b>
<b>Total assets</b>			<b>2,053,622,058</b>	<b>2,126,198,687</b>

LIABILITIES AND NET EQUITY (in Euro)		31.12.2017	31.12.2016
<b>A) Quotaholders' equity</b>			
I. Capital		200,000,000	200,000,000
IV. Legal reserve		40,000,000	40,000,000
VI. Other reserves			
Additional paid-in capital		1,764,096,207	1,835,096,207
Reserve from net gains on foreign exchange		983	19,358
IX. Net income (loss) for current year		27,480,485	28,916,723
<b>Total quotaholders' Equity (A)</b>		<b>2,031,577,675</b>	<b>2,104,032,288</b>
<b>B) Reserves for Risks and Charges</b>			
4) others		800,250	385
<b>C) Reserves for employee severance indemnities</b>			
		<b>460,609</b>	<b>417,310</b>
<b>D) Liabilities</b>			
	Amounts due after one year or more		
	31.12.2017	31.12.2016	
6) prepayments	-	-	178,825
7) payables to suppliers	-	-	16,926,072
12) taxes payable	-	-	522,741
13) payables to social security and pension funds	-	-	705,752
14) other payables	-	-	1,360,458
<b>Total liabilities (D)</b>			<b>19,693,848</b>
<b>E) Unearned revenue and accrued expenses</b>			
			<b>1,089,677</b>
<b>Total liabilities (B+C+D+E)</b>			<b>22,044,383</b>
<b>Total liabilities and quotaholders' equity</b>			<b>2,053,622,058</b>
			<b>2,126,198,687</b>

# 2.2 INCOME STATEMENT

(in Euro)	31.12.2017	31.12.2016
<b>A) Value of production</b>		
1) earnings from sales and provision of services	236,797,077	234,644,051
5) other revenues and income	180,627	1,084,522
<b>Total value of production (A)</b>	<b>236,977,704</b>	<b>235,728,573</b>
<b>B) Cost of goods sold</b>		
6) raw materials, consumables and supplies	13,543,435	16,341,865
7) for services	89,893,473	87,445,137
8) for use of third-party assets	2,206,473	3,400,521
9) personnel costs:		
a) wages and salaries	8,727,928	8,185,479
b) company charges	2,754,509	2,632,150
c) employee severance fund	555,817	517,750
e) other costs	73,397	67,065
10) depreciation and write-downs:		
a) depreciation of intangible assets	444,312	322,450
b) depreciation of property, plant and equipment	75,879,807	75,875,703
11) changes in stock	1,851,447	-2,014,011
13) other accruals	800,250	-
14) other operating costs	1,580,118	775,773
<b>Total cost of goods sold (B)</b>	<b>198,310,966</b>	<b>193,549,882</b>
<b>Net value of production (A-B)</b>	<b>38,666,739</b>	<b>42,178,691</b>
<b>C) Financial income and expenses</b>		
16) other financial income	1,165	7,884
17) interests and other financial expenses	-49	-8
17-bis) foreign exchange gains and losses	9,249	-31,492
<b>Total financial income (expenses) (C)</b>	<b>10,365</b>	<b>-23,616</b>
<b>Earnings before taxes (A-B+C)</b>	<b>38,677,104</b>	<b>42,155,075</b>
20) deferred, current and prepaid income tax		
a) current tax	-11,225,084	-13,238,352
b) prepaid tax	28,465	-
<b>Net income (loss) for current year</b>	<b>27,480,485</b>	<b>28,916,723</b>

# 2.3 CASH FLOW STATEMENT

(in Euro)	31.12.2017	31.12.2016
<b>A) Cash Flow From Operating Activities</b>		
Net Profit	27,480,485	28,916,723
<b>Net Profit Adjustments</b>		
- Income taxes	11,196,619	13,238,352
- Interests payable/ (interests receivable)	49	-
- (Dividends)	-	-
- Net gains on disposal of assets	465,741	9,550
<b>1. Earnings before income tax, interests, dividends and plus/minus from asset sale</b>	<b>39,142,893</b>	<b>42,164,625</b>
<b>Adjustments to reconcile net profit to net cash provided by operating activities:</b>		
- Depreciation, depletion and amortization and other non monetary items	76,324,118	76,198,153
- Provisions to reserves for risks and charges	799,865	-
- Provisions for employees' end of service benefits	555,817	517,750
<b>2. Net cash before changes in working capital</b>	<b>116,822,694</b>	<b>118,880,528</b>
<b>Changes in working capital related to operations:</b>		
- Inventory variation	1,851,447	-2,014,010
- Receivable variation	1,798,888	2,044,293
- Payables variation	-965,028	-843,811
- Other changes	-307,935	207,130
<b>3. Net cash after changes in working capital</b>	<b>119,200,066</b>	<b>118,274,130</b>
<b>Changes to other assets and liabilities:</b>		
- Interests receivable/(interests payable)	-49	-
- Deferred and prepaid taxes	-12,504,560	(18,350,757)
- Provisions used	-512,518	(505,244)
<b>Net cash flow from operating activities (A)</b>	<b>106,182,939</b>	<b>99,418,129</b>
<b>B) Cash flow from investing activities</b>		
Investments in intangible assets	-2,169,140	(1,335,923)
Advances for intangible assets	598,922	-
Investments in property, plant and equipment	-768,663	(1,590,266)
<b>Net Cash flow from investing activities (B)</b>	<b>-2,338,881</b>	<b>(2,926,189)</b>
<b>C) Cash flow from financing activities</b>		
Dividends (and advances on dividends) paid	-28,935,098	-30,848,460
Changes in equity: contributions / (refunds)	-71,000,000	-84,000,000
<b>Net cash flow from financing activities (C)</b>	<b>-99,935,098</b>	<b>-114,848,460</b>
<b>Net change in cash and cash equivalents (A+B+C)</b>	<b>3,908,959</b>	<b>-18,356,520</b>
Cash and cash equivalents at the beginning of the year	8,955,031	27,311,552
Cash and cash equivalents at the end of the year	12,863,990	8,955,031

The Financial Statements at 31 December 2017 are consistent with the accounting entries.

For the Board of Directors  
**The Chairman**  
 Homoud Fahad Homoud Sultan Al-Qahtani

## 2.4.1 Valuation criteria

As per Company By-Laws, these Financial Statements have been prepared in accordance with the provisions of the Italian Civil Code and with the National Accounting Standards issued by the Organismo Italiano di Contabilità (OIC). The valuation criteria applied in the preparation of the Financial Statements for the year ended 31 December 2017 have been updated, as a consequence of the incorporation of the directive 2013/34/EU with D. Lgs. n.139/2015 and consistent with OIC standards updated and issued in December 2016 and in December 2017.

The valuation of the items in the Financial Statements is driven by the general criteria of prudence and periodicity, in the context of business continuity.

Continuity in the application of valuation criteria over time is a requirement to ensure comparison of the Financial Statements published by the Company.

The application of the principle of prudence has led to the assessment of individual entries or asset or liability components.

In accordance with the principle of periodicity, each accounting entry should be allocated to a given period and split accordingly if covers several periods. In other words, business events have to be recognized and attributed to the accounting year to which such transactions refer to, and not the one in which the related financial transactions occur.

The valuation criteria adopted in these financial statements were the following.

### 2.4.1.1 Intangible assets

Intangible assets have been capitalized based on their purchase or internal production cost, including overheads and any other ancillary cost, adjusted by related depreciation funds and any monetary revaluation pursuant applicable law. Intangible assets use straight-line depreciation based on their estimated asset service life. Any installation and improvement costs, research and development or advertisement costs with multi-year use are capitalized in line with art. 2426 c.5 of Italian Civil Code and with the endorsement of Statutory Auditors if required.

If there is a lasting loss of value, assets should be depreciated to reflect their residual value. The residual value is the highest value between the actual usage value of the assets and its fair value, net of sale costs. If the reasons leading to the write-down no longer exist, the value of the asset is recovered up to the value that the asset had had if the write-down had never taken place.

Costs of improvements of rented or leased assets are capitalized and recorded as Intangible assets - third party property improvements - as stated by OIC 24, if these improvements cannot be used autonomously.

Depreciation of such costs is done over the shorter period between the future usefulness of the expense and the residual rent or lease, also taking into account the possible renewal if it depends on the lessee.

The yearly depreciation rates applied are as follows because of the estimated asset service life, and partly as a result of the elevated obsolescence rates that technological assets usually suffer:

- software: with rate from 20 to 33%;
- other intangible fixed assets: with rate from 4 to 25%.



### 2.4.1.2 Tangible assets

Fixed assets have been capitalized based on their purchase or internal production cost, including direct, auxiliary and indirect overhead costs inherent to internal production in line with art. 2426 of Italian Civil Code. The costs of ordinary maintenance needed for the effective preservation of the asset are entirely expensed and booked in the year in which they occurred. Improvement costs are booked directly on the asset on which they were performed and depreciated over its residual useful life.

Costs incurred to expand, modernize or improve the structural elements of a tangible asset are capitalized if they produce a significant and measurable increase in production capacity, safety or life. If these costs do not produce these effects, they are treated as ordinary maintenance and expensed.

Assets currently in use, which have an economic value lower than the cost of depreciation, are written-down and aligned to its economic value. If the reasons leading to the write-down no longer exist, the asset is returned to its original value. Tangible fixed assets are systematically depreciated each year based on their financial and technical useful life which could not exceed the duration of the maritime concession.

The yearly depreciation rates applied are as follows:

- buildings: with rate 2.33%;
- plants and equipment: with rate from 2.33 to 10%;
- industrial and commercial equipment: with rate from 7 to 10%;
- other Tangible fixed assets: with rate from 4 to 20%.

Note: 2.33% is used for assets whose useful life is expected to exceed the duration of the maritime concession.

For the fixed assets, which have been completed and placed into operation during the financial year, the depreciation rate is adjusted, according to accounting standard OIC 16, assuming that the purchases are evenly distributed over the year.

The assets with lower value whose service life is within the fiscal year are all depreciated in the year when they come into operation.

Fixed assets under construction include tangible fixed assets in progress relating to systems and units for which construction and trial activities are still ongoing. Such categories represent a part of the Company's assets which do not contribute to generate revenue at the date of Balance Sheet. These items are booked according to the general principle detailed in art. 2426 of the Civil Code and as such are reflected at their purchase or production cost, similarly to operational assets.

According to estimates under long-term plans, these fixed assets will be able to generate sufficient revenues during their useful life to cover all costs and expenses incurred in the operation of the Company, including depreciations. Therefore, the Company has not taken steps to devalue these operational assets used in the production process. Government grants are recognized when there is reasonable assurance that the Company will comply with the contractual conditions and that the grants will be received. In line with accounting principle OIC 16 the full amount of the Government grant is presented in the Balance Sheet as a credit against the recorded cost of assets, hence recognized in the Income Statement, as reduced depreciation costs, in line with the useful life of the qualifying assets.



### 2.4.1.3 Inventories

Inventories of raw materials, intermediates and finished goods are carried at the lower of acquisition or production cost and current market value, as per article 2426 of the Italian Civil Code.

Specifically, inventories of supplies are valued at weighted average cost. Inventories of LNG were valued at current market price while diesel inventories at FIFO.

### 2.4.1.4 Accounts receivable and accounts payable

Receivables and payables starting from 1 January 2016 are reported according to the depreciated cost method, considering the time factor and, for receivables, at their estimated collectable value. As foreseen by OIC 15 and OIC 19, the depreciated cost method can be opted out if the effect are not material, which is generally the case for short term payables and receivables (expiration at less than 12 months). Based on the option foreseen by the national accounting standards (OIC), the Company reports its receivables at their estimated collectable value and its payables at their nominal value.

For those items booked in previous years and still having effects in the current Financial Statements, the option as per art.12 c.2 of D.Lgs. n.139/2015 was adopted.

Liabilities for unused holidays and for employees deferred remuneration, together with the related amount due to social security institutions, are allocated on the basis of the amount to be paid in case of termination of employment on the date of the Financial Statements.

Tax liabilities for the fiscal year are computed with applicable tax rates to the realistic estimate of the taxable income. In line with accounting standard OIC 25, taxes are shown in the Balance Sheet net of any relevant tax credits, tax prepayments and withheld taxes, and the resulting debit or credit is shown accordingly.

Receivables and payables in foreign currencies are valued with year-end exchange rates. Related unre-

alized foreign exchange gains or losses are credited or debited to the income statement. Any foreign exchange gain reported in the income statement must be accrued as a separate reserve, which may not be distributed until the gain is realized.

Deposits for the use of third-party assets and for the supplies of services are recorded at their nominal value.

### 2.4.1.5 Accruals and deferrals

Accruals and deferrals refer to revenues or expenses covering multiple fiscal years and require to be reflected proportionally in line with OIC 18. Accrued income and expenses represent revenues and costs attributable to the fiscal year but having financial effects in subsequent years, deferred income and expenses represent revenues and costs which had its financial impact before the end of the fiscal year but attributable to subsequent fiscal years.

As for the accrued expenses and deferred income spanning over several years, the conditions that determined the original classification have been verified, entering the appropriate changes if the case.

### 2.4.1.6 Provisions for risks and charges

Provisions for risks and charges are recognized for a present obligation that, at the end of the reporting period, certainly exists, or it is more likely than not that an outflow of resources will be required to settle the obligation, but its timing or amount could not be defined at the end of the year. A provision shall be recognized when a reliable estimate can be made about the amount of the obligation. Where it is not probable that a present obligation exists, an entity discloses a contingent liability in the Notes to the Financial Statements but no recognition of a provision is allowed.

### **2.4.1.7 Employee Severance Indemnity (ESI) fund**

The Employee Severance Indemnity represents the total of accrued charges in favor of employees as per the current legal provisions, work contracts and possibly other Company agreements that were in place at year-end. As required by current legislation, such liability is subject to reassessment by way of indexes. The tax advances on the Employee Severance Indemnity was directly used to correct the Severance Indemnity's value in the books.

The ESI corresponds to the total of individual indemnities accrued by employees at the date of year-end closing, net of:

- payments made during the year due to employee severance;
- advances granted;
- INPS Guarantee Fund (0.50% of the monthly taxable wages) charged to the employee's ESI fund, as required by law;
- amount paid to complementary pension funds (representing the amount that would be recognized to employees in case of employee severance at a given date).

### **2.4.1.8 Obligations, guarantees and other commitments**

The risks related to guarantees or commitments to third parties are reported in the Notes to Financial Statements as per D.Lgs. n.139/2015 for an amount equal to the nominal amount of the collateral provided.

In particular, this section includes guarantees provided directly or indirectly, separately listing sureties, endorsements and other personal guarantees, which are reported at the actual value of the commitment, as well as obligations deriving from contracts, and collateral provided which is shown at carrying value of the pledged assets or rights.

### **2.4.1.9 Revenue, income, costs, expenses, dividends and grants**

related to the sale of the products and the provision of the services in question.

Service revenues are recognized when the services are provided in accordance with the relevant contracts. On the basis of capacity contracts currently in force, the service is considered as rendered in the year in which there is the obligation to make capacity available, independently of its real utilization, being capacity allocation the main and predominant part of the regasification service. Further details are referenced in paragraph "Obligations, guarantees and other commitments not included in the Balance Sheet".

According to accounting principle OIC 8 the costs incurred to purchase CO<sub>2</sub> credits on the market are reflected in the financial year in which surrender obligations arise based on actual CO<sub>2</sub> emissions produced by the Company. At the end of financial year, if the balance between the CO<sub>2</sub> credits held by the Company and the actual CO<sub>2</sub> emissions shows a shortage, an accrual is recorded for the outstanding quotas to purchase and a liability with the relevant national authority. In case balance shows a long position, if the surplus is related to CO<sub>2</sub> credits purchased on the market, a prepaid expense is recorded in the year to adjust emission costs to be expensed in the next accounting period.

Financial income and expense are booked following the accrual date.

Capital contributions paid by the government or by public institutions pursuant to law, are recognized when all conditions of the grant are met.





### 2.4.1.10 Leasing

Assets subject to finance lease are carried on the basis of the asset method.

If applicable, an entity shall disclose in a specific section of the Notes to the Financial Statements additional information requested by law related to the finance lease agreement.

At the date of these Financial Statements there are no contracts that require disclosure of additional information foreseen by the art. 2427 no. 22 of the Civil Code.

### 2.4.1.11 Income taxes

Income taxes, corporate income tax (IRES) and regional taxes on productive activities (IRAP) for the fiscal year are determined on the basis of the estimated taxable income, according to current fiscal regulations. According to OIC 25, the resulting liability (net of advances, withholdings and other credits if they could be offset) is recognized in the Balance Sheet under "Taxes payable". If, as result of advance payments, a tax credit arises, this amount is recognized in the Balance Sheet under "Tax credits".

Deferred and prepaid taxes are determined on the temporary differences between the value of assets and liabilities on the Balance Sheet and the corresponding tax values recognized. Deferred tax assets and liabilities are determined under the applicable rates in the period in which the temporary differences arise; these amounts are updated in the following periods to reflect any changes in the applicable tax rate at the end of each year.

Deferred tax assets should be recognized only if there is a reasonable certainty of their future recovery, whereas they are devalued if recoverability is in doubt. Deferred tax liabilities are recognized only when they arise from taxable temporary differences that produce an actual tax liability.

Deferred tax asset and liabilities are offset only when, according to the tax laws, the taxpayer has the right to offset for tax purposes. The resulting amount is posted to the "Reserve for current and

deferred taxes", if it is a liability. If the result is a credit, it is posted to an asset account called "Deferred tax assets".

### 2.4.1.12 Criteria for the conversion of foreign currency items

Le attività e le passività espresse originariamente in valuta estera di natura non monetaria sono iscritte nello Stato Patrimoniale al tasso di cambio vigente al momento del loro acquisto, ossia al costo di iscrizione iniziale.

## 2.4.2 Comments to Balance Sheet entries

### Balance Sheet - Assets

#### B. Fixed assets

##### B.1 Intangible assets

At the date of Balance Sheet, intangible assets were at 3,107k Euro, showing an increase by 801k Euro from 2016 mainly due to Company's IT infrastructure upgrade. The amount represents the sum of:

- 2,289 Euro as other intangible assets of which 899k Euro refer to improvements made to the new leased headquarters in Milan and the Porto Viro shore base and 1,390k Euro for the Company's IT infrastructure;
- 643k Euro for software and application systems for administrative and processing purposes;
- 175k Euro of asset under construction mainly regarding the Company's website redesign and offices improvements.

The table below summarizes the overall changes occurred during the year:

(in Euro)	Concessions, licences, patents, trademarks and similar	Assets under construction and payments on account	Other	Total
<b>Values at 31.12.2016</b>	<b>549,972</b>	<b>814,458</b>	<b>941,963</b>	<b>2,306,393</b>
Of which:				
Historical cost	3,171,085	814,458	5,645,641	9,631,184
Accumulated depreciation	(2,621,113)	-	(4,703,678)	(7,324,791)
<b>Net value at 31.12.2016 (A)</b>	<b>549,972</b>	<b>814,458</b>	<b>941,963</b>	<b>2,306,393</b>
Changes in 2017:				
Purchases	350,249	(515,567)	1,735,536	1,570,218
Disposals	(21,407)	-	(787,776)	(809,183)
Disposals (acc. depr.)	21,407	-	462,898	484,305
Reclassifications	-	(124,285)	124,285	-
Depreciation	(256,756)	-	(187,556)	(444,312)
<b>Total changes (B)</b>	<b>93,493</b>	<b>(639,852)</b>	<b>1,347,387</b>	<b>801,028</b>
<b>Values at 31.12.2017 (A+B)</b>	<b>643,465</b>	<b>174,606</b>	<b>2,289,350</b>	<b>3,107,421</b>
Of which:				
Historical cost	3,499,927	174,606	6,717,686	10,392,219
Accumulated depreciation	(2,856,462)	-	(4,428,336)	(7,284,798)
<b>Net value at 31.12.2017</b>	<b>643,465</b>	<b>174,606</b>	<b>2,289,350</b>	<b>3,107,421</b>



## B.II Tangible assets

Total amount as of 31 December 2017 was at 1,993,430 Euro, reflecting a decrease of 75,252k Euro from previous year.

The table below summarizes the overall changes occurred during the year:

(in Euro)	Land and buildings	Plants and equipment	Industrial and comm. equipment	Other assets	Fixed assets in progress and payments on account	Total
<b>Values at 31.12.2016</b>	<b>1,111,313,222</b>	<b>950,006,915</b>	<b>2,033,775</b>	<b>3,874,682</b>	<b>1,453,689</b>	<b>2,068,682,283</b>
Of which:						
Historical cost	1,368,197,618	1,293,403,580	4,845,517	7,133,155	1,453,689	2,675,033,559
Accumulated depreciation	(228,202,660)	(319,241,209)	(2,811,742)	(3,258,473)	-	(553,514,084)
Government Grant:						
Historical cost	(34,431,458)	(32,145,342)	-	-	-	(66,576,800)
Accumulated depreciation	5,749,722	7,989,886	-	-	-	13,739,608
<b>Net Value at 31.12.2016 (A)</b>	<b>1,111,313,222</b>	<b>950,006,915</b>	<b>2,033,775</b>	<b>3,874,682</b>	<b>1,453,689</b>	<b>2,068,682,283</b>
Changes in 2017:						
Purchases	2,074	77,810	8,352	76,025	604,402	768,663
Disposals	-	(465,624)	(46,582)	(114,824)	(6,836)	(633,865)
Disposals (accum. depr.)	-	341,469	37,298	114,236	-	493,002
Reclassifications	148,227	159,188	87,321	158,516	(553,252)	-
Depreciation	(31,890,882)	(45,019,026)	(450,989)	(436,065)	-	(77,796,962)
Government Grant:						
Depreciation	802,287	1,114,868	-	-	-	1,917,155
<b>Total Changes (B)</b>	<b>(30,938,294)</b>	<b>(43,791,315)</b>	<b>(364,600)</b>	<b>(202,112)</b>	<b>44,315</b>	<b>(75,252,007)</b>
<b>Values at 31.12.2017 (A+B)</b>	<b>1,080,374,928</b>	<b>906,215,600</b>	<b>1,669,175</b>	<b>3,672,570</b>	<b>1,498,004</b>	<b>1,993,430,276</b>
Of which:						
Historical cost	1,368,347,919	1,293,174,954	4,894,607	7,252,873	1,498,004	2,675,168,357
Accumulated depreciation	(260,093,542)	(363,918,766)	(3,225,432)	(3,580,303)	-	(630,818,044)
Government Grant:						
Historical cost	(34,431,458)	(32,145,342)	-	-	-	(66,576,800)
Accumulated depreciation	6,552,009	9,104,754	-	-	-	15,656,763
<b>Net Value at 31.12.2017</b>	<b>1,080,374,928</b>	<b>906,215,600</b>	<b>1,669,175</b>	<b>3,672,570</b>	<b>1,498,004</b>	<b>1,993,430,276</b>

Tangible fixed assets consist of the following:

- 1,080,375k Euro in “Land and buildings” are primarily related to the concrete structure of the terminal (Gravity Based Structure - GBS), with adjoining buildings to appliances modules (topsides) installed on GBS and at the Cavarzere metering station;
- 906,216k Euro in the category “Plants and equipment” reflect the units/systems employed in the regasification process among which there are mainly the two LNG storage tanks and the under\*

sea/onshore gas pipelines, each including the minimum LNG operating level and the LNG loading arms;

- 1,669k Euro in the category “Industrial and commercial equipment” are mainly referred to the fire and laboratory equipment present at the Cavarzere metering station and on the terminal;
- 3,673 Euro in the category “Other assets” reflect the furnishing of offices and local units of the Company, the lifeboat located on the terminal, electric and manual trolleys, office machinery, electrical and electronic equipment and other computer equipment located on the terminal;
- 1,498k Euro for fixed “Assets under construction” reflect expenditures related to minor projects that at the date of balance sheet are not yet completed and placed into operation.

As in the previous years, the Company deemed appropriate to request a leading firm, specialized in asset valuation, an assessment on the tangible assets adequacy and fair value. This independent value assessment was based on the comparative method (or market) valuation criteria as reference point, even though valid for a limited group of assets, and/or on the replacement cost method, which provides a cost estimate for the complete replacement of the analyzed asset. Therefore, the value assessment conducted with the above mentioned criteria was not affected by any future factors such as the expected return from these assets. The independent report resulted in an assets fair value higher than their net book value. In complian-

ce with legal requirements and accounting standards (OIC 9), tangible assets are reflected within the Balance Sheet at their acquisition or production cost.

## C. Current assets

At the date of Balance Sheet, current assets totaled 56,057k Euro, down by 2,004k Euro from previous year. Additional details and balances are included in the following.

### C.I Inventory

As of 31 December 2017 total inventory was at 13,006k Euro with an decrease of 1,851k Euro from 2016. This amount reflects the following categories:

- 12,362 Euro related to spare parts for recurring use on the terminal;
- 597k Euro for LNG inventory for purchases in kind from the terminal users and required to ensure the operation of the infrastructure;
- 47k Euro related to inventories of diesel used on the terminal for the auxiliary power systems.

	Raw materials, subsidiary materials and consumables	Total inventory
Value at beginning of the year	14,857,343	14,857,343
Variation of the year	(1,851,446)	(1,851,446)
<b>Value at the end of the year</b>	<b>13,005,897</b>	<b>13,005,897</b>

### C.II Receivables

Total receivables were at 30,187k Euro, down by 54k Euro from 2016, all due to be settled within 5 years.

	Receivables from customers	Receivables from Tax Authorities	Credits for prepaid taxes	Other Receivables	Total Receivables
Value at beginning of the year	23,922,634	1,408,153	-	4,909,907	30,240,694
Variation of the year	(1,669,560)	1,555,189	28,465	32,071	(53,834)
<b>Value at the end of the year</b>	<b>22,253,074</b>	<b>2,963,342</b>	<b>28,465</b>	<b>4,941,978</b>	<b>30,186,860</b>
Receivables due over 5 years	-	-	-	-	-



The table below details the geographical composition of the receivables:

	Total	Italy	Abroad
Receivables from customers	22,253,074	18,090,839	4,162,235
Receivables from controlled companies	-	-	-
Receivables from affiliated companies	-	-	-
Receivables from parent companies	-	-	-
Receivables from Tax Authorities	2,963,342	2,963,342	-
Credits for prepaid taxes	28,465	28,465	-
Other receivables	4,941,978	4,934,370	7,608
<b>Total receivables</b>	<b>30,186,860</b>	<b>26,017,016</b>	<b>4,169,843</b>

#### 1) From customers

Receivables from customers were at 22,253k Euro and are mainly due to:

- 16,573k Euro for regasification services to users, including ancillary services;
- 4,000k Euro for transportation costs and access fees to the national grid recharged to users including related Use & Loss for national grid operations;
- 919k Euro represent recharge to the users for the terminal Losses and Consumption;
- 390k Euro related to Operational Balancing Agreement (OBA) with Snam Rete Gas in force from November 2016;
- 358k Euro for marine services related to two LNG berthing occurred at the beginning of January 2018.

#### 5-bis) Tax credits

Tax credits for 2,963k Euro, increasing of 1,555k Euro, are related to:

- 2,272k Euro related to the payable amount for income taxes net of advances paid during the year, of which 2,160k Euro of IRES and 112k Euro of IRAP;
- 426k Euro related to credit balance for VAT advances paid in December 2017;
- 225k Euro related to excise duty for reimbursement by the Customs Agency;
- 40k Euro due to the IRES refund request filed as per Law Decree 201/2011.

#### 5-ter) Prepaid taxes

Prepaid taxes for 28k Euro, increasing of the same amount with respect of 2016, are related to provisions to funds for risks and reserves deemed as partially deductible. Further details are provided in the related section.

#### 5-quater) Other receivables

Other receivables totaling 4,942k Euro of which:

- 4,599k Euro from the Ministry of Environment related to CO<sub>2</sub> free allowances granted to the Company, that could not be released due to lack of available rights from the Italian Government. This particular situation has been ruled by Law Decree 72/2010, which assigned to ARERA the responsibility to define the criteria to determine CO<sub>2</sub> credits owed to "new entrants" operators, and that has been annually resolved actual value of such credits. In January 2015 the Company has sent to Ministry of Economic Development request of reimbursement for such credits as required by decree of 21 February 2014: the application is currently ongoing;
- 343k Euro mainly related to advance payments to vendors and to cash guarantee deposits for the Milan office lease and for Customs duties, the works in concession for the construction of the gas pipeline and other utilities.

Given that there are no foreseen risks related to the collection of the above-mentioned receivables, the Company does not deem to account for any write-down.

#### C.IV Cash and equivalent

Balance as of 31 December 2017 was at 12,864k Euro, which is an increase of 3,909k Euro with respect to previous year. This value mainly reflects the year-end bank account balance.

	Bank accounts	Cheques	Cash	Total cash and equivalents
Value at beginning of the year	8,954,248	0	783	8,955,031
Variation of the year	3,909,694	0	(735)	3,908,959
<b>Value at the end of the year</b>	<b>12,863,942</b>	<b>0</b>	<b>48</b>	<b>12,863,990</b>

#### D. Accrued income and prepaid expenses

Total is at 1,028k Euro with a decrease of 129k Euro with respect to previous year amount.

It mainly represents the deferral of insurance premiums paid in 2017 (869k Euro), in addition to the deferral of membership contributions, other minor insurance premiums, bank guarantee fees, telecom and other services subscription.

	Discount on loans	Accrued income	Prepaid expenses	Total accrued income and prepaid expenses
Value at beginning of the year	-	777	1,156,166	1,156,943
Variation of the year	-	(406)	(128,922)	(129,328)
<b>Value at the end of the year</b>	<b>-</b>	<b>371</b>	<b>1,027,244</b>	<b>1,027,615</b>



## Balance Sheet - Quotaholders' Equity and Liabilities

### A. Equity

Equity amounted to 2,031,577,675k Euro, with a decrease of 72,455k Euro from previous year.

Movements occurred during the year are reflected in the table below:

	Capital stock	Legal reserve	Other reserves			Profit (loss) of the year	Total equity
			Quotaholders' additional equity contributions	Reserve for exchange rate gains	Total other reserves		
Starting balance	200,000,000	40,000,000	1,835,096,207	19,358	1,835,115,565	28,916,723	2,104,032,288
<b>Destination of the result of the previous year</b>							
Dividends				(18,375)	(18,375)	(28,916,723)	(28,935,098)
Other use							
<b>Other variations</b>							
Addition							
Decreases			(71,000,000)		(71,000,000)		(71,000,000)
Reclassification							
Profit of the year						27,480,485	27,480,485
<b>Ending balance</b>	<b>200,000,000</b>	<b>40,000,000</b>	<b>1,764,096,207</b>	<b>983</b>	<b>1,764,097,190</b>	<b>27,480,485</b>	<b>2,031,577,675</b>

The legal reserve remained unchanged to one fifth of the share capital, equivalent to 40,000,000 Euro.

Other reserves were at 1,764,097,190 Euro as per below details:

- 1,753,302,398 Euro as per-quota additional equity contributions by the Quotaholders following the Financial Plans approved by the Board of Directors (BoD). Current year reduction of 71,000,000 Euro is due to the partial and proportional restitution of the reserve as per Board of Directors' resolutions on 30 November 2016 and 26 April 2017 and in line with the 2017 Financial Plan timeline, in compliance with related Quotaholders' resolutions on 18 January 2017, and without prejudice to creditors;
- 10,793,808 Euro as equity of 2 May 2005 contribution by Edison S.p.A. for extinguishing their financial inter-company receivables in line with the 2 May 2005 agreement.

	Total	Quotaholders' additional equity contributions	Reserve for exchange rate gains
Amount	1,764,097,190	1,764,096,207	983

During 2017 and according to Quotaholders' resolution dated 26 April 2017 a total amount of 28,935k Euro has been paid to Quotaholders in the form of dividends.

Information requested as per art. 2427 n. 7-bis of Civil Code are provided in the following tables.

	Amount	Source /nature	Possibility of use	Quota available for use	Summary of uses in the three previous years	
					to cover losses	for other reasons
<b>Capital reserves</b>	<b>200,000,000</b>	<b>Shareholders' contributions</b>				
<b>Legal reserve</b>	<b>40,000,000</b>	<b>Shareholders' contributions</b>	<b>For coverage of losses;</b>	<b>40,000,000</b>		
<b>Other reserves</b>						
Additional paid-in capital	1,764,096,207	Shareholders' contributions	For a capital increase; for coverage of losses; for distribution to quotaholders	1,764,096,207		258,200,000
Reserve from net gains on foreign exchange	983	Net income	For a capital increase; for coverage of losses; for distribution to quotaholders	983		7,405
Total other reserves	1,764,097,190			1,764,097,190		258,207,405
Income/(losses) for the year	27,480,485	Net income	For a capital increase; for coverage of losses; for distribution to quotaholders	27,480,485		75,649,913
<b>Total</b>	<b>2,031,577,675</b>			<b>1,831,577,675</b>		<b>333,857,318</b>
<b>Non-distributable portion</b>	<b>240,000,000</b>			<b>40,000,000</b>		
<b>Quota available for distribution</b>	<b>1,791,577,675</b>			<b>1,791,577,675</b>		

	Total	Additional paid-in capital	Reserve from net gains on foreign exchange
Amount	1,764,097,190	1,764,096,207	983
Source / nature		Shareholders' contributions	Net income
Possibility of use		For a capital increase; for coverage of losses; for distribution to quotaholders	For a capital increase; for coverage of losses; for distribution to quotaholders
Quota available for use	1,764,097,190	1,764,096,207	983
Summary of uses in the three previous years to cover losses			
Summary of uses in the three previous years for other reasons	258,226,763	258,200,000	26,763



## B. Funds for risks and reserves

Funds for risks and reserves amounted at 800k Euro as of 31 December 2017, with an increase of the same amount with respect to 2016. According to Italian Accounting Standard OIC 31 requirements, under a precautionary approach and based on the conclusions drawn by the tax consultants, such provision have been recognized with reference to the 2012 IRES reassessment and the 2010-2017 ICI/IMU assessments described below. The Company made no provisions for risks arising from other open disputes.

On December 2017 the Company received a tax reassessment for 2012 corporate income tax (IRES), related to 2010 and 2011 losses carried forward totaling 589k Euro. The Company appointed a preminent tax-consulting firm to support the hearing with the Authorities on the matter.

On December 2016 the Company received a tax calculation notice issued by the Porto Viro municipality (Rovigo) for 2010 ICI (property) tax related to the terminal site for a total amount of 3,642k Euro (of which 3,009k Euro base tax and 632k Euro interest). During 2017, the Company decided to challenge the tax assessment notice by filing an appeal on 20 February 2017 to the Provincial Tax Commission of Rovigo. The judging commission has been designated and the court hearing is still to be set. On December 2017 the Company received tax calculation notices for 2011 and 2012 ICI/IMU tax for a total amount of 20,400k Euro (of which 6,424k Euro base tax, 1,128k Euro interest and 12,848k Euro penalties).

2018 Italian Budget Law (n.205 December 27, 2017) includes an article (c. 728) limiting the ICI/IMU taxable basis for offshore regasification plants to living quarter assets only. The new rule is interpreting prior years' legislation and it is applicable from 2010 onward for Adriatic LNG terminal. In view of the new law, the Company started the process of tax assessment discussion with the Porto Viro municipality.

With regards to potential provisions related to restoration costs, the Company completed in 2015 the assessment regarding potential restoration

costs as requested by ARERA. Adriatic LNG obtained a technical appraisal by an independent engineering consultant company with the estimate of potential restoration costs, and, by a leading firm in the sector, a study drawing long term scenarios of energy and gas consumption, which confirmed correctness of the assumption that the terminal will still be of strategic importance to the diversification and supply of the European and Italian energy system in 2052 and beyond. Lastly, to complete such comprehensive and complex analysis, the Company obtained, from a preminent consultant firm, an opinion on civil law, administrative and accounting aspects of the matter. Based on the outcome of above mentioned analysis and studies, the opinion concluded that the risk of the Company incurring potential restoration costs should be assumed as remote. During 2017 there were no significant events that would trigger the need to revisit and update the previously mentioned analysis, thus the Company holds those conclusions still valid in regard to the long term energy outlook and the opinion on civil law, administrative and accounting aspects. Therefore, accordingly to OIC 31 requirements did not recognize any provision for potential restoration costs in these 2017 Financial Statements.

The Company, with the aim to opportunely monitor the risk evolution, currently assumed as remote, will request, in case of significant events, a periodic update of both the technical appraisal and the long-term energy outlook.

In addition, the Company, on the basis of multi-year plans approved by the Board of Directors did not deem necessary to make any provisions for the Make-Up balance as explained in the relevant Obligations section, as the possibility that all the various and concomitant conditions are in place for the exercise by users of the Make-Up balance accumulated as of 31 December 2017 is remote and an eventual future utilization of the Make-Up balance would not generate significant additional costs.

	Provisions for pensions and similar obligations	Tax Provision, including deferrals	Other funds	Total funds or risks and expenses
Starting balance	-	-	385	385
<b>Annual variation</b>				
Accruals	-	-	800,250	800,250
Use	-	-	(385)	(385)
Other variations	-	-	-	-
Total variations	-	-	799,865	799,865
<b>Ending balance</b>	-	-	<b>800,250</b>	<b>800,250</b>

### C. Employee Severance Indemnity Fund

Total was at 461k Euro with an increase of 43k Euro with respect to the previous year. Additional details and breakdown are reflected in the table below:

Severance Indemnity Fund	
Starting Balance	417,310
<b>Variations during the year</b>	
Accruals	555,817
Use	(18,115)
Other Movements	(494,403)
Total variations	43,299
<b>Ending Balance</b>	<b>460,609</b>

The balance of this account reflects the payable amount to employees net of those amounts transferred to the complementary pension funds (Allegata Previdenza, Fondo Energia and Previndai). The accruals refer, on the other hand, to all the contributions paid to both the Employee Severance Indemnity (ESI) funds and complementary pension schemes.



## D. Liabilities

Liabilities were at 19,694k Euro, down by 1,247k Euro from previous year.

There are no payables due in more than five years. Additional details and breakdown are reflected in the table and commentary below:

	Advance payments from customers	Payables to vendors	Taxes payables	Payables to social security	Other payables	Debts
Starting balance	178,825	18,173,227	838,095	678,352	1,072,656	20,941,155
Annual variation	-	(1,247,155)	(315,354)	27,400	287,802	(1,247,308)
Ending balance	178,825	16,926,072	522,741	705,752	1,360,458	19,693,848
Of which due after five years	-	-	-	-	-	-

These liabilities are split between geographic areas as summarized in the table below:

	Total	Italy	Abroad
Advance payments from customers	178,825		178,825
Payables to vendors	16,926,072	16,291,199	634,873
Taxes Payables	522,741	522,741	
Payables to Social Security	705,752	705,752	
Other Payables	1,360,458	1,351,641	8,817
<b>Debts</b>	<b>19,693,848</b>	<b>18,871,334</b>	<b>822,514</b>

### D.6 Prepayments

Total balance of 179k Euro relates to the prepayment for marine services for one LNG berthing occurred at the beginning of January 2018.

### D.7 Payables to suppliers

The amount due to suppliers was 16,926k Euro, a decrease of 1,247k Euro from 2016.

Analysis of main items as follows:

- 6,984k Euro reflect payables to Snam Rete Gas for the transportation and grid access costs and the transfer of gas for self-consumption purposes, grid leaks and unrecorded gas related to the distribution grid, in conformity with the ARERA decisions ARG/gas 184/09 and ARG/gas 218/2010. These costs have been recharged to the terminal's users;

- 4,351k Euro relating to provisions for services and materials supplied by vendors but not yet invoiced;
- 2,809k Euro relating to invoices for professional and technical service providers;
- 1,372k Euro refer to payables to users related to the transfer of gas used by the terminal, in conformity with the ARERA decision 438/2013/R/Gas and payables to the users for transportation and grid access costs and gas transfer for self-consumption purposes, grid leaks and unrecorded gas related to the distribution grid, in conformity with ARERA decision 776/2016/R/Gas;
- 982k Euro relating to professional and technical services provided by ExxonMobil Qatar under the Services Agreement signed with the Quota-holders;
- 410k Euro referring to the portion of CO<sub>2</sub> emission allowances to be purchased in advance of actual surrender due by 30 April 2018.

#### D.12 Tax payables

Amounted to 523k Euro, in decrease of 315k Euro compared to previous year, and are mainly related to:

- 468k Euro for withholding taxes mainly related to withholdings for employees salary income payable in the following month;
- 55k Euro refer to payable for excise duties.

#### D.13 Payables to social security and pension funds

As of 31 December 2017, total amount was 706k Euro, reflecting an increase of 27k Euro compared to previous year. It reflects the total of social contributions and insurance due by the employer and by the employees (contributions already withheld under existing legislation). These payables are all due within the following year and most are paid to the respective social security institutions within the coming month the obligation arises.

#### D.14 Other payables

Other payables were at 1,360k Euro, increasing by 288k Euro from previous year.

Main items included are accruals for invoices to be received and rendered services, for which the following detail is provided:

- 841k Euro related to Productivity Premium in accordance with Company Agreement, T&E expenses and overtime accruals;
- 519k Euro related to employees' vacation days carried forward and other accruals.

#### E. Unearned revenue and accrued expenses

Unearned revenue and accrued expenses were at 1,090k Euro and are mainly due to the 2018 portion of the fixed fee for the flexibility services signed by users of the terminal, plus marine services related to two LNG berthing occurred at the beginning of January 2018.

	Accrued Liabilities	Fees on loans	Deferred revenues	Total Accrued Liabilities and Deferred Income
Starting balance	-	-	807,549	807,549
Annual variation	-	-	282,128	282,128
<b>Ending balance</b>	-	-	<b>1,089,677</b>	<b>1,089,677</b>



## 2.4.3 Comments to the Income Statement

### A. Value of production

Value of production (category details)									
	Total	Rigasification	Rigasification gas self-consumption	Marine services	Recharge for booked capacity	Recharge for send-out to the grid	Sale of gas grid own consumption	Revenues from Operational Balancing Agreement	Other revenues and incomes
Total value	236,977,704	162,007,522	7,683,993	13,769,501	15,645,441	35,285,023	101,062	2,304,535	180,627

Value of production (geographic area)			
	Total	Italy	Abroad
Total value	236,977,704	173,356,049	63,621,655

#### A.1. Earnings from sales and services

Amounted to 236,797k Euro, with an increase of 2,153k Euro from 2016.

The main items making up the revenues figures are analyzed below:

- 162,007k Euro for regasification services including capacity charge, measurement and flexibility services;
- 7,684k Euro for services rendered to users offsetting the LNG purchased in kind for losses and consumption;
- 13,769k Euro of revenues relating to marine services provided to enable the berthing of 77 LNG carriers at the terminal;
- 51,032k Euro for recharge of costs incurred in the provision of transportation services, including 101k Euro relating to the sale of gas for grid self-consumption as per resolution 608/14/R/Gas;
- 2,305k Euro related to the Operational Balancing Agreement (OBA), in force from November 2016.

Revenues from the regasification services include 31,087k Euro related to the capacity made available and not utilized by the users that has generated a corresponding increase of Make-Up balance. Further details are provided in paragraph "Obligations, guarantees and other commitments not included in the Balance Sheet".

### A.5. Other revenues

Other revenues and income for 181k Euro relate to normal contingent assets resulting from the adjustments of expense accruals of the previous years, according to accounting standards (OIC 29), in addition to revenues related to the charge out of labor costs for personnel seconded to other companies.

### B. Cost of production

Cost of production was at 198,311k Euro, increased by 4,761k Euro from 2016.

#### B.6 Raw materials, consumables and supplies

Totaled 13,543k Euro and reflects a decrease of 2,798k Euro from 2016.

This mainly refers to transfers of the LNG in kind from users required for the regasification process and the charge related gas grid self-consumption for a total of 7,785k Euro, and 2,077k Euro to the Operational Balancing Agreement (OBA) introduced in November 2016 with the Transmission System Operator of gas grid; remaining 3,681k Euro are due to purchases of technical materials, office supplies, fuel and other materials required for operational activities at the Porto Viro shore base, the terminal and Milan office.

#### B.7 Services

Service charges were at 89,893k Euro, increased by 2,448k Euro from previous year. The following provides the details for the total cost for services:

- 50,930k Euro for transportation grid capacity and variable transportation;
- 15,198k Euro for professional and technical assistance and services for the day-to-day management of the Company of which 4,173k Euro rendered by the Quotaholders and/or their affiliated companies (ExxonMobil Qatar) within the framework of the Service Agreement and include costs for seconded personnel and technical-professional assistance. The remaining 11,025k Euro relates to technical, engineering and administrative services provided by third parties of which the

main items refer to 4,089k Euro for professional services, 1,709k Euro relating to the costs of environment monitoring activities, lab analyses and inspections, 1,483k Euro for consultancies, 2,524k Euro for information technology services, 502k Euro for services from lawyers and notaries, 291k Euro for surveillance services, 232k Euro for fees to Statutory Auditors, Auditing Company and Guarantor and 195k Euro for other services;

- 9,228k Euro for piloting, mooring and towing services;
- 5,338k Euro for maintenance and repair services;
- 3,471k Euro for helicopter, sea and ground transportation services, personnel and cargo to the terminal, weather forecasting services, customs services;
- 2,201k Euro mainly for operating insurance costs;
- 1,848k Euro for miscellaneous services, such as canteen, cleaning and disinfecting, waste management, garage and custodian fees, costs, purchase of utilities for the Milan and Porto Viro offices and for the terminal;
- 1,249k Euro for healthcare services, technical and professional training and additional personnel costs;
- 241k Euro mainly due to communication and sponsorship costs for local community projects and activities;
- 187k Euro for general costs such as postal, telephone (161k Euro), bank fees and commissions on guarantees (26k Euro).

#### B.8 Use of third party assets

During 2017 these expenses were at 2,206k Euro, down by 1,194k Euro from 2016.

Main items refer to the following rentals:

- 885k Euro mainly for the Milan office and the Porto Viro shore base;
- 484k Euro for containers, electric trucks, cranes and other equipment at the Porto Viro shore base and the terminal;
- 20k Euro for vehicles and office equipment.

The remaining amount of 817k Euro mainly refers to the yearly fee related to the fifty-year maritime concession for terminal location (750k Euro) and other easements or rights of way.



### *B.9 Personnel*

Amounted to 12,112k Euro, increased by 709k Euro compared to previous year and reflects the salary escalation and the implementation of approved staffing plan.

### *B.10 Depreciation and write-downs*

Total depreciation is worth 76,324k Euro, up by 126k Euro from previous year and comprising the following items.

#### **Depreciation of intangible assets**

Amounted to 444k Euro and relate for 257k Euro to the depreciation of software licenses, for 108k Euro to the improvements to third party assets for the establishment of offices leased by the Company and for 79k Euro for other intangible assets.

#### **Depreciation of property, plants and equipment**

Amounted to 75,880k Euro and relate to 31,089k Euro for buildings, 43,904k Euro for plant, machinery and pipelines, 436k Euro for other tangible fixed assets, and 451k Euro for industrial and commercial equipment. The analysis and valuation process of fixed assets and debts did not determine the need for devaluation in values carried at cost.

### *B.11 Changes in stock*

In 2017 there was a negative net change in stock of raw materials and consumables amounting to 1,851k Euro. This is related for an amount of 2,630k Euro related to the decrease of LNG inventory and 10k Euro for diesel consumption, partially offset by positive variation of 788k Euro of inventory spare parts. According with the national accounting standards (OIC 13), the inventory valuation is carried at the lower of acquisition or production cost and current market value. Specifically, inventory of LNG has been valued at current market price while diesel inventories at FIFO.

### *B.13 Other accruals*

Accruals for 800k Euro were recorded during the year. Further details are reported in section "Balance Sheet - Liabilities - B. Funds for risks and reserves".

### *B.14 Miscellaneous operating costs*

Amount to 1,580k Euro, with an increase of 804k Euro compared to previous year, and do primarily refer to emission trading costs (426k Euro), events and entertainment expenses (286k Euro), contributions to associations (145k Euro), indirect taxes and charges (127k Euro), contingent losses from assets retirement (466k Euro) and other costs (130k Euro). As established by OIC 8, it is reported that the value of 426k Euro is related to 88,702.57 tons of CO<sub>2</sub> emission for 2017, of which 19,844 tons granted by the competent authority. At year end 2017 there is no inventory of emission credits.

## *C. Financial income and expenses*

Financial income and expenses show a net gain of 10k Euro, compared to the 24k Euro of net loss recorded in 2016. They can be broken down into the following items.

### *C.16 Other financial revenue*

Amounted to 1k Euro down by 7k Euro from 2016, and are mainly related to interest income on bank account.

### *C.17 Interest and other financial expenses*

Amounted to 49 Euro, in line with previous year, and were related to interest applied by bank and suppliers.

### *C.17 bis) Foreign exchange gains and losses*

During the year favourable exchange rate fluctuations resulted in net gain of 9k Euro which compares to net losses for 31k Euro in 2016. The amount is the net of gains and losses on foreign exchange operations realized (net gain of 25k Euro) and unrealized (net loss estimated at 15k Euro).

Between 2017 year-end and the preparation of these Financial Statements there have been no significant changes in the foreign exchange rates of the foreign currency items booked. During the year, foreign currency transactions were mainly related to goods and services purchases carried out in US Dollars and, to a lesser degree, in British Pounds and Norwegian Krone.

### **20) Income taxes**

Income taxes amounted to 11,197k Euro inclusive of a negative adjustment of 61k Euro related to previous years' direct taxes.

With reference to the IRES tax, the Company reported a positive taxable income equal to 39,863k Euro, resulting in current year tax payable for 9,567k. For comprehensive reporting purposes, no significant difference has been recorded in 2017 between the actual tax rate and the theoretical one.

With reference to the IRAP tax, the Company reported a positive taxable income and thus made provisions for a total of 1,597k Euro in 2017. The difference recorded between the actual IRAP tax rate at 4.13% and the theoretical one (3.90%) is not significant.

In 2017 prepaid taxes for 28k Euro were posted as temporary differences. During the years 2016 and 2017 there was no use of prepaid or deferred income taxes.

### **2.4.4 Comments to the Cash Flow Statement**

Free cash flow in 2017 totaled 106,183k Euro, up by 6.8M Euro from 2016. Although the Company has access to liquidity capacity, internally generated funds covered its financial requirements resulting in unused credit lines for short-term financing. Further details are provided in the Cash Flow statement, determined using the indirect method, drawn up in line with the provisions of accounting principle OIC 10.

The Company financial strength can be summarized by the following financial ratios:

- (Financial) Debt/Equity equal to zero;
- Equity/Assets equal to 1.02.





# 25 OTHER INFORMATION

## Relevant events occurring after year-end

No relevant events to report at present.

## Receivables and payables due in more than five years and payables covered by secured guarantees

There are no payables or receivables due in more than five years or any payables backed by secured guarantees on Company assets.

## Personnel details

The following table shows the number and the average number of employees of the Company separately for qualification (excluding secondees):

	Managers	Supervisors	Employees	Workers	Other personnel	Total
Average headcount	3	19	82	11	-	115

## Fees to the Board of Directors and Statutory Auditors

No remuneration was resolved for the Board of Directors, while the Quotaholders' meeting on 26 April 2017 resolved the following fees to the Statutory Auditors:

- 46,000 Euro to the Chairman;
- 34,000 Euro to each of the acting Auditors.

Furthermore, according to the Board of Directors resolution dated 19 June 2017, it has been set an annual fee amounting to 15,000 Euro to each of the Statutory Auditors confirmed to act as a joint board for the Guarantor role as per ARERA requirements.

Reimbursable expenses amount for 2017 were at 8,248 Euro.

	BoD members remuneration	Statutory auditors fees	Total
Amount	-	173,608	173,608

## Fees to the Auditing Company

According to the Quotaholders' resolutions on 29 April 2014 and 26 April 2017, the fees applied to the Auditing Companies for 2017 were equal to:

- 38,000 Euro for the audit of the yearly Financial Statements;
- 7,900 Euro for the review of correct book keeping activities and fiscal declarations;
- 5,300 Euro for the audit of unbundling accounting, in accordance with ARERA resolution ARG/gas 11/07.

Further provisions to the Auditing Companies were related to the following activities:

- 5,300 Euro for the audit of the attestation for yearly revenues, in accordance with ARERA resolution 438/2013/R/Gas.

Finally, during the year 1,888 Euro were paid as reimbursable expenses.

	Audit of the yearly Financial Statements	Other auditing services	Fiscal services	Other services in addition to auditing	Total fees of the audit company
Amount	38,000	18,500	-	1,888	58,388

## Obligations, guarantees and other commitments not included in the Balance Sheet

Obligations, guarantees and other commitments were at 685,932k Euro, with an increase of 14,133k Euro from the previous year, and refer to guarantees received and issued, and commitments by the Company as specified below.

### Guarantees received

Long term guarantees:

- 100k Euro relating to the guarantee issued to the Company by other suppliers.

Short term guarantees:

- 17,948k Euro relating to the guarantee issued to the Company following the allocation of regulated capacity;
- 1,000k Euro related to guarantees issued to the Company following the allocation of Peak Shaving service;
- 480k Euro relating to the guarantee issued to the Company by other suppliers.

### Guarantees issued

Long term guarantees:

- 9,550k Euro relate to the guarantee issued in favor of the Ministry of Transportation for the fifty-year concession of the parcel of territorial waters where the off-shore terminal is placed;
- 10,058k Euro relate to the guarantees requested by Snam Rete Gas to cover the obligations deriving from the transport contract;
- 90k Euro relate to other guarantees requested by third parties for the pipeline construction.

Short term guarantees:

- 1,534k Euro relate to the guarantees requested by Snam Rete Gas to cover the obligations deriving from the transport contract.



## Obligations

- The current estimate for future obligations for Make-Up balance is deemed null as the Company assessed a remote possibility of its use and, in any case, the additional costs to provide the related services would not be material as better explained in section “B. Provisions for risks and charges”. For the sake of completeness, it is reported that the Make-Up balance at the end of 2017 is equal to 395,191k Euro, up by 31,087k Euro compared to 2016. The Make-Up balance represents a future and uncertain commitment, in its likelihood, quantity and timing, corresponding to the monetary amount resulting from the non-use of the capacity available and matured in competent years since the beginning of the capacity contract, up to year-end 2017. Such balance allows the user to ask the Company to apply for new capacity by compensating the Make-Up balance. The eventual use of the balance is subject to a number of conditions, such as: (i) capacity available for users at the terminal; (ii) a concomitant request for additional quantities exceeding the contract quantities; (iii) no released capacity over the year, and (iv) if the requested quantity is equal to or higher than other requests received. Once all these conditions have been satisfied, the monetary value of the Make-Up balance can be only used to reduce the applicable tariff in order to cover the service’s fixed charges. On the basis of capacity contracts currently in force, the service is considered as rendered, in the year in which there is the obligation to make capacity available, independently of its real utilization, being capacity allocation the main and predominant part of the regasification service. A positive Make-Up balance at contract expiration date does not give title to any monetary or residual regasification service commitments;
- 132,108k Euro relate to the transportation agreement, for a period of 25 years, with Snam Rete Gas and Infrastrutture Trasporto Gas (former Edison Stoccaggio) to guarantee the transportation capacity necessary for the transfer to the supply system of up to 21 million standard cubic meters per day, equivalent to 80% of the maxi-

mum estimated regasification capacity;

- 93,903k Euro relate to the 25-year agreement with Adriatic Towage for towage services provided by 4 tugs;
- 15,798k Euro relate to the 20-year agreement (with an option for five additional years) with Bambini for the Crew Supply Vessels in use from/ to the Porto Viro shore base and the terminal;
- 5,022k Euro relate to 15-year agreement for mooring services, to be supplied by a temporary joint venture between the mooring groups of Chioggia, Ravenna and Venice;
- 3,150k Euro relate to the 15-year agreement for piloting services, for the LNG tankers upon arrival to the terminal, with the Corporation of Pilots of Chioggia and Porto Levante.

Other obligations not reflected in above memorandum accounts (pursuant to art. 2427 n.9 Italian Civil Code):

- obligation to regasify and redeliver to the users the LNG in stock at the date of the Balance Sheet totaling 217,181 m<sup>3</sup> of LNG;
- obligation, pursuant to art. 9 of ARERA resolution 438/2013/R/Gas, to include a total of 1,818 m<sup>3</sup> of LNG in the computation of the terminal’s losses and consumptions tariff applicable to terminal users.

## Revaluations

The Company has not made re-evaluations on assets, therefore no details are provided.

## Information pursuant to art. 2427 bis of Civil Code on financial instruments

During the year the Company did not issue or hold any derivative financial instrument.

## Relations with controlled, affiliated, controlling companies, companies controlled by parent companies

As for information foreseen by art. 2427 22-bis) of Civil Code, operations with controlled, affiliated, controlling companies, companies controlled by parent companies, were traded at market conditions. Further details are available in the relevant section of the Report on Operations.

## Notes to the postings

These Financial Statements, consisting of the Balance Sheet, Income Statement, Cash Flow Statement and Notes to the Financial Statements, represent truthfully and correctly the financial position of the Company, the result for the period ended as of 31 December 2017 and corresponding accounting records.



# 26

## RESOLUTION PROPOSAL

Dear Quotaholders,

We invite you to approve in full, and in each comprising document, the enclosed Financial Statements related to the year 2017.

The Financial Statements of Your Company as of 31 December 2017 report a net profit of 27,480,484.89 Euro (rounded to 27,480,485 Euro in the enclosed Financial Statements).

Should you agree with the criteria used in preparing the Financial Statements and the accounting standards and methods used therein, we propose to adopt the following resolutions:

- A. to allocate 27,480,484.89 Euro as dividend that can be distributed as of the day following the approval date and in line with the Financial Plan effective at the moment of distribution;
- B. to allocate as dividend the Foreign Exchange Earnings Reserve of 982.49 Euro that is now available for distribution, as per art. 2426 of Italian Civil Code and Italian Accounting Principles (OIC 1 and 26), and that can be distributed as of the day following the approval date and in line with the Financial Plan effective at the moment of distribution.

For the Board of Directors

**The Chairman**

Homoud Fahad Homoud Sultan Al-Qahtani





# 3 REPORT BY THE STATUTORY AUDITORS



STATUTORY AUDITORS' REPORT  
TO THE QUOTAHOLDERS  
OF TERMINALE GNL ADRIATICO S.R.L.  
RELATIVE TO FINANCIAL YEAR ENDED 31.12.2017

Dear Quotaholders,

the Board of Directors called this meeting to resolve on the Financial Statements of the year ended as of 31 December 2017 and on the Board proposal concerning the allocation of the net income of the financial year.

In accordance with art. 2429 of the Civil Code, by this report the Board of Statutory auditors describes and summarizes the behavior line and activities implemented by the Statutory auditors of your Company for the financial year 2017 and the Financial Statements aforesaid.

The Directors have reported in detail the various aspects of the business for the financial year in the Report on Operations. It provides full and detailed information on the yearly results, in which the business registered net revenues at 237.0 million Euro, EBITDA at 115.0 million Euro, EBIT at 38.7 million Euro and net income at 27.4 million Euro after accrued income taxes for a total of 11.2 million Euro. As of 31 December 2017, the total value of fixed assets, net of depreciation, is equal to 1,997 million Euro, net of 2017 yearly depreciation.



Regarding other operational aspects of the year ended as of 31 December 2017, to be noted:

- the gas quantities delivered by the Company into the national distribution grid were 6.6 billion cubic meters, covered about 10% of gas imports to the Italian markets and 9.3% of total gas supply;
- the berthing were equal to 77 LNG ships, with a significant increase compared to year 2016;
- the Terminal capacity utilization widely exceeded 2016 and reached 82%, maintaining a still much higher rate than the average utilization of LNG terminals in Europe. This means that the number of capacity released slots from the long term customers decreased with respect to 2016.

It's also worth mentioning that the condition of the gas demand did not allow the Company to place on the market most of the quotas exceeding the regasification capacity contractually agreed. It's worth pointing out that the Company is always aligned to the gas market allocation procedures identified and authorized by the Regulatory Authority for Energy Infrastructures and Environment (ARERA, former AEEGSI), as showed in the Regasification Code, published on Adriatic LNG website.

During 2017, the Statutory Auditors have monitored the correct performance of the formalities relating to the potential and actual access by any third parties, also in consideration of the Statutory Auditors' role as Guarantor in

respect of the AEEGSI and in the interest of third parties, in compliance with the specific regulatory provisions applicable to your Company.

All the obligations within the scope of the duties of the Board of Statutory auditors were performed as indicated by art. 2403 of the Civil Code and the rules of conduct defined by the Tax Consultants and Chartered Accountants Associations. Therefore the Board of Statutory auditors:

- attended all Quotaholders and Board meetings, obtaining regularly from the Directors information about the company's activities and the most important business transactions implemented by the Company;
- has overseen the procedures followed concerning the Board resolutions adopted by written consent pursuant to art. 24 of the By-Laws;
- has overseen that all Board resolutions taken in meetings and by written consent were compliant with the law and the By-Laws;
- has taken due note of the reasons and the considerations dealt with by the Directors when preparing the financial plan updates, with regard to current and planned business activities;
- evaluated the corporate organization as a whole and in terms of administration and accounting area, and can attest that it is consistent with the purposes and size of the Company and its effective business;
- evaluated the adequacy and efficiency of administration/accounting procedures and internal control system;

- verified the keeping and updating of the “Organization and Management Policy” (according to Legislative Decree no. 231/2001, as amended) through regular meetings with the competent Compliance Team and the review of the information available in its periodical reports;
- verified that, in the process of preparing the draft Financial Statements and Directors’ report, the rules established by the law have been complied with and the disclosure provided exhaustive.

The monitoring of the adequacy of the organizational structure also got useful insights by the assessments carried out in 2017 by the management on specific business areas, that followed the three-yearly company-wide audit as per the quota holder agreements. In both cases, this Board monitored the detected improvement opportunities and the action plans on the outcomes of the audits. No significant critical issues were brought to the attention of the Statutory Auditors.

Special attention was paid by the management on the activities concerning health, safety, environment and security. In 2017, specific assessments were made on working environment, over which the management system named SHEMS (Safety, Security, Health and Environmental Management System) has been confirmed in being able to guarantee the highest standards.

As per prior years, we underline that the Report on Operations and Financial Statements prepared by the Board of Directors includes details about

the relations with Quotaholders or their affiliates in the Company.

Similarly, the information related to the risks concerning legal disputes were regularly received by the Board of Statutory Auditors. The number of pending disputes in the last years has been considerably reducing, always with sentences favorable to the Company. Anyway, also in 2017 the Board of Statutory Auditors has regularly asked and received extensive information from the responsible of the legal department, without detecting problems or criticalities other than those already highlighted by the Directors.

The monitoring of open litigations concerned two specific areas in particular.

The first regards environmental matters, which have finally seen two employees of the Company, originally involved, come out of the criminal proceeding initiated before the Court of Rovigo. In taking note that the dispute ended favorably, the Board continues to supervise that the Company keeps paying a high and continuing attention to possible environmental impacts, both through specifically monitoring and sampling the water and adopting control mechanisms ensuring compliance with the limits established by the laws in force.

The second concerns a fiscal matter, regarding the ICI dispute started after the tax assessments issued by the municipality of Porto Viro (Rovigo province) for the years 2010, 2011 and 2012. On this regards it appears to be deci-

sive the content of the law 205 of 27 December 2017 (2018 Italian Budget Law), which provides for a strong limitation to the determination of the tax base for the regasification facilities and identifying the criteria on the basis of which the tax must be applied. The Company has operated consistently in determining the provisions of the Financial Statements, allocating amounts that are expected to cover all the charges due from 2010 to today. The Board of Statutory Auditors has regularly and appropriately exchanged information with the new External Auditor PriceWaterhouseCoopers, appointed in April 2017 as External Auditors of your Company's accounts. We have therefore been informed that there were no events or transactions that required specific reporting and on the activities and methods implemented in the audit of the Financial Statements.

The 4th of April 2018, the external auditor, at completion of the activity concerning the mandatory audit of the Financial Statements, has issued the final audit report with no remarks and in accordance with the new provisions of the law.

As per previous year, the operating activities generates a substantial positive cash flow and this allows continuing the partial refund to the Quotaholders of the Equity Reserve which was injected to the Company to start-up the business. The refund is always monitored by this Board, always taking into consideration the operative and financial needs and without prejudice

to the rights of creditors.

At the end, and for the above, the Board of Statutory Auditors is favorable to the approval of the Report on Operations and Financial Statements as of December 31st 2017 and of the Board of Directors proposal concerning the allocation of the net income of the financial year.

Milan - Rome, 2018 April, 6th

THE STATUTORY AUDITORS

Signed by

Mr. Maurizio de Magistris, Chairman

Mr. Lorenzo De Angelis, Acting auditor

Mr. Piero Gennari, Acting auditor

This report has been translated into the English language solely for the convenience of international readers.

# 4 REPORT BY THE AUDITING COMPANY



## **Independent auditor's report**

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010*

To the quotaholders of Terminale GNL Adriatico Srl

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### **Report on the Audit of the Financial Statements**

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#### **Opinion**

We have audited the financial statements of Terminale GNL Adriatico Srl (the Company), which comprise the balance sheet as of 31 December 2017, the income statement and statement of cash flows for the year then ended and related notes.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in compliance with the Italian laws governing the criteria for their preparation.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Other matters**

The separate financial statements of Terminale GNL Adriatico Srl for the year ended 31 December 2016 were audited by another auditor which, on 3 April 2017, issued an unqualified audit report.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian laws governing the criteria for their preparation and, in the terms

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#### **PricewaterhouseCoopers SpA**

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prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;



- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

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### ***Report on Compliance with other Laws and Regulations***

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#### ***Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10***

Management of Terminale GNL Adriatico Srl is responsible for preparing a report on operations of Terminale GNL Adriatico Srl as of 31 December 2017, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Terminale GNL Adriatico Srl SpA as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of Terminale GNL Adriatico Srl SpA as of 31 December 2018 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Milan, 4 April 2018

PricewaterhouseCoopers SpA

*Signed by*

Giulio Grandi  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*



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Editorial project:  
SEC S.p.A.

Graphic project:  
Curious Design - Milan

Printed by:  
B&C editoria e stampa S.r.l. - Roma  
May 2018



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Registered office:  
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Capital stock: 200,000,000 Euro fully paid up  
Milan REA no. 1788519  
Tax code and VAT no. 13289520150

